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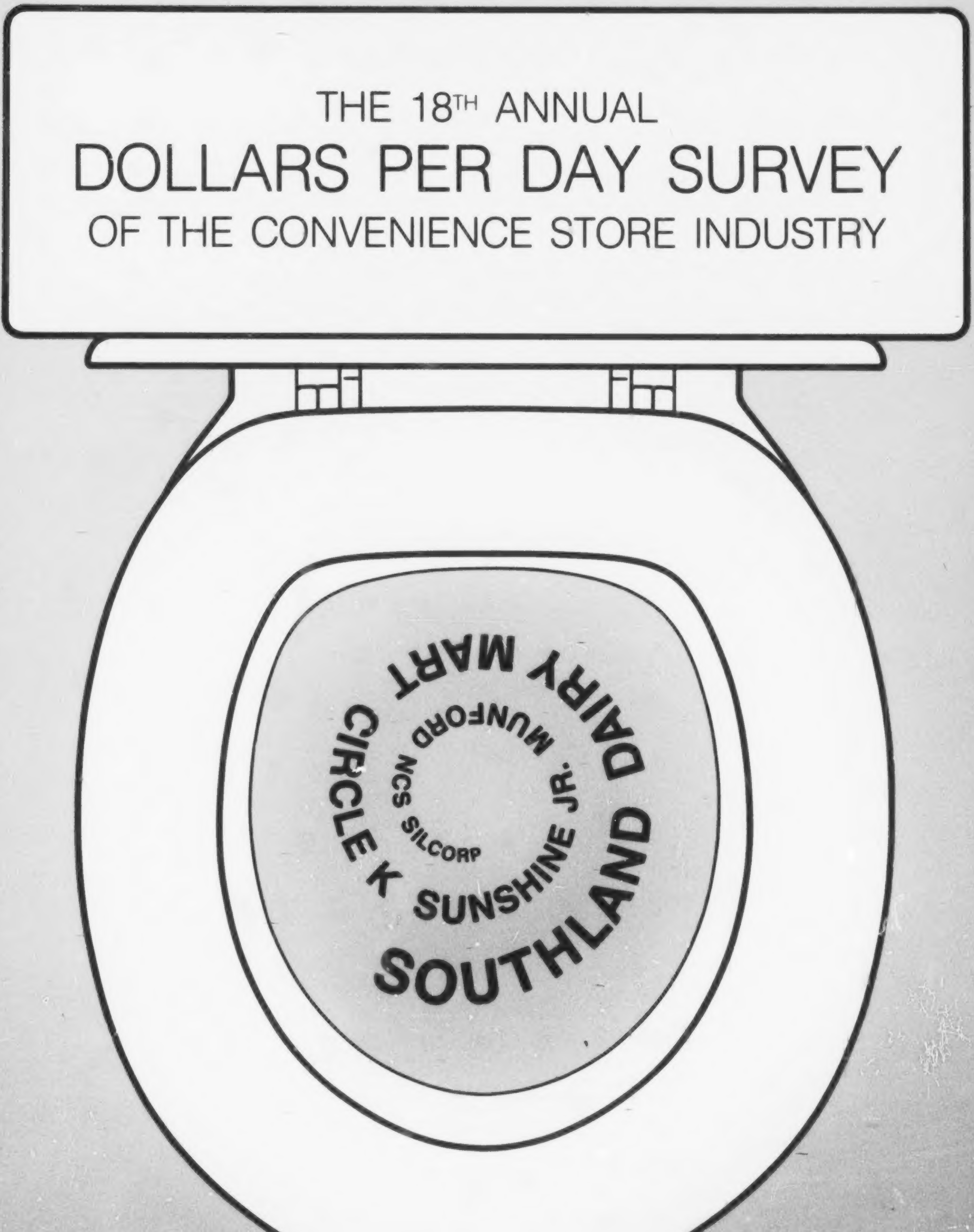
THE 18TH ANNUAL

# DOLLARS PER DAY SURVEY

OF THE CONVENIENCE STORE INDUSTRY


SOUTHLAND
DAIRY MART
CIRCLE K
SUNSHINE JR.
MUNFORD
NCS
SILCORP

1988

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| | |
|---|---|
| Proofreaders: | Jeremy Chapman<br>Connie Chance<br>Rod Hussey |
| Cover Design | Lise Vernasco/the Wildside |
| Typesetting | ReederType |

**Errors and Omissions:** Although we have gone to great lengths to verify the information included in this Survey, there may still be some errors and omissions. Please send your comments and corrections to **The Dollars Per Day Survey,** P. O. Box 886, Benicia, California 94510.

## ABOUT THE AUTHOR

John Roscoe operates a chain of discount stores in Northern California. He has published the Dollars Per Day Survey since 1971.

Mr. Roscoe was the first to sell gasoline with a remote controlled, self-service pump. He was also the first to use discount pricing in small food stores. Since 1984, the Survey has also included What the 12 Largest Oil Companies say about Gasoline Marketing. Mr. Roscoe can be contacted at (707) 745-6691.

# EIGHTEENTH ANNUAL DOLLARS PER DAY SURVEY
## OF THE CONVENIENCE FOOD STORE INDUSTRY

The Dollars Per Day Survey presents the financial and operating results of the leading publicly held convenience food store chains on a dollars per store per day basis. The dollars per day method reduces the operating figures of the chains to a common denominator: store accounting days. Each chain is analyzed on this basis and then ranked in comparison to the other chains.

### SURVEY WINNER: CASEY'S GENERAL STORES, INC.

Casey's General Stores of Des Moines, Iowa is this year's winner of the Dollars Per Day Survey. Casey's earned pretax dollars of $77.94 per store per day to win the survey.

Casey's operates 653 stores in eight midwestern states. They went public in 1983 and entered the survey at that time. They finished 1st in 1987.

### SURVEY PARTICIPANTS

The chains included in this Survey are the largest chains in the business. To be included in this report, companies must meet the following criteria:

1. They must be publicly held.
2. Store operating figures must be adequately separated in the annual report from other lines of business in which the company might be engaged, so that reasonable deductions can be made concerning store operating results.

The following chains are analyzed in this report:

1. Casey's
2. Circle K
3. Silcorp
4. Dairy Mart
5. Sunshine Jr.
6. National Convenience
7. Munford
8. Southland

All of the data used is easily verifiable. It is derived from either the chain's annual report to the stockholders, the proxy statement, or the Form 10K filed with the Securities and Exchange Commission.

### SURVEY METHOD: Store Sales and Gasoline Sales

Stores sales are considered to be merchandise sales made from the store. These include the sales of fast food, packaged goods, and non-food merchandise sold in a convenience store.

Gasoline sales are sales of petroleum products, usually made from remote controlled dispensing systems that are activated at the checkstand inside the store.

Stores sales for all of the chains are comparable. We have separated store sales and gasoline sales and have excluded gasoline sales from our sales computations and comparisons. Gasoline sales and gallonage figures are examined in Part II of this report.

Companies are ranked in the Survey to show relative performance among chains.

# THE EIGHTEENTH ANNUAL DOLLARS PER DAY SURVEY

## THE CONVENIENCE STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

| DOLLARS PER DAY RANKING | COMPANY | YEAR ENDED | NUMBER OF STORES | STORE DAYS | SMALL FOOD STORE SALES | AVERAGE SALES PER STORE PER DAY | SALES INCREASE PER STORE PER DAY | PERCENT OF SALES INCREASE IN $DPD SALES | PRETAX PROFIT | INVENTORY VALUATION METHOD | AFTER TAX PROFIT | AFTER TAX PROFIT AS A PERCENT OF STORE SALES | PROFIT PER STORE PER DAY PRETAX | PROFIT PER STORE PER DAY AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | 4-30-88 | 653 | 226,737 | $139,429,904 | $934 | $8 | 1% | $17,672,501 | LIFO | $10,550,501 | —[1] | $77.94 | $46.53 |
| 2 | Circle K | 4-30-88 | 4,077 | 1,313,611 | 1,649,200,000 | 1,255 | 14 | 1% | 84,701,000 | FIFO | 60,411,000 | 3.66% | 66.76 | 45.98 |
| 3 | Silcorp | 12-27-87 | 1,049 | 382,564 | 441,804,000 | 1,154 | 113 | 11% | 6,143,592 | FIFO | 4,455,386 | 1.00% | 16.06 | 11.65 |
| 4 | Dairy Mart | 1-30-88 | 1,188 | 435,890 | —[2] | — | — | — | 6,671,000 | LIFO | 4,023,000 | — | 15.30 | 9.22 |
| 5 | Sunshine Jr. | 12-31-87 | 316 | 119,826 | 83,700,000 | 699 | 38 | 6% | 1,663,914 | LIFO | 958,255 | 1.24% | 13.88 | 8.00 |
| 6 | National Convenience | 6-30-88 | 1,119 | 378,627 | 550,000,000 | 1,453 | -25 | 2% | 215,000 | FIFO | 6,754,000 | 1.23% | .57 | 17.85 |
| 7 | Munford | 12-31-87 | 705 | 272,454 | 265,967,680 | 976 | 14 | 1% | -2,558,000 | FIFO | -2,117,520 | — | -9.39 | -7.77 |
| 8 | Southland | 12-31-87 | 7,818 | 2,826,852 | 6,072,631,000 | 2,148 | 115 | 6% | -182,201,450 | LIFO | -63,100,900 | — | -64.45 | -22.32 |
| Totals | | — | 16,925 | 5,956,561 | $9,202,732,584 | $1,690 | $122 | 5% | $-64,692,443 | | $21,933,722 | — | $-10.86 | $3.68 |

Sales shown on this schedule are for food stores sales only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,480,480,714.
Total sales for both food and gasoline were $12,683,213,298.

[1] Casey's store sales for company operated stores only.

[2] Dairy Mart gasoline inventories at FIFO.

Average daily sales are figured for 5,443,262 store days only. Dairy Mart sales and Casey's franchise stores have been omitted. Average daily sales and sales growth exaggerated with deletion of Dairy Mart low sales.

# THE CONVENIENCE STORES SEGMENT OF THE NATIONAL FOOD STORE BUSINESS

1976 THROUGH 1987

| | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Food Store Sales | $153 Billion | $163 Billion | $180 Billion | $199 Billion | $221 Billion | $241 Billion | $252 Billion | $264 Billion | $279 Billion | $292 Billion | $305 Billion | $313 Billion |
| Total Convenience Store Business | $7.4 Billion | $7.4 Billion | $8.7 Billion | $10 Billion | $12.4 Billion | $14.1 Billion | $15.1 Billion | $16.5 Billion | $19.0 Billion | $20.4 Billion | $21.6 Billion | $22.4 Billion |
| Convenience Store Business as a % of Total U.S. Food Store Business | 4.84% | 4.53% | 4.84% | 5.01% | 5.61% | 5.86% | 5.99% | 6.25% | 6.81% | 6.98% | 7.08% | 7.15% |
| Total Number of Food Stores | 183,700 | 175,820 | 169,500 | 168,900 | 167,100 | 165,000 | 162,000 | 158,000 | 156,000 | 154,000 | 152,000 | 150,000 |
| Total Number of Supermarkets | 32,700 | 33,120 | 33,400 | 33,600 | 34,900 | 28,680* | 28,950* | 29,950* | 30,175* | 30,505* | 30,600 | 30,400 |
| Total Number of Convenience Stores | 27,400 | 30,000 | 32,500 | 34,125 | 35,800 | 37,800 | 38,700 | 40,400 | 42,950 | 45,400 | 47,000 | 50,000 |
| Convenience Stores as a % of Total Food Stores | 14.9% | 17.0% | 19.2% | 20.2% | 21.4% | 22.9% | 23.9% | 25.6% | 27.5% | 29.5% | 30.9% | 33.3% |
| Average Annual Sales — Convenience Stores | $270,802 | $246,000 | $268,000 | $293,040 | $346,368 | $373,544 | $390,180 | $408,415 | $442,375 | $449,559 | $459,57[illegible] | $448,000 |
| Average Daily Sales — Convenience Stores | $741 | $673 | $734 | $802 | $949 | $1,023 | $1,068 | $1,118 | $1,210 | $1,232 | $1,259 | $1,227 |
| Consumer Price Index — Urban Consumers 1967 = 100 | 175.3 | 187.2 | 207.7 | 233.2 | 260.5 | 282.5 | 293.1 | 299.1 | 316.1 | 328.4 | 333.1 | 346.7 |
| Average Daily Convenience Store Sales adjusted for inflation over 1974 base year | 660 | 561 | 552 | 537 | 569 | 566 | 568 | 584 | 535 | 524 | 528 | 495 |

*Supermarket Qualifications: to include only stores doing over $2,000,000 annually

Convenience Stores' increase in percentage of total food store business from 1976 to 1987: +48%

Source of Information:
*Progressive Grocer* Annual Survey of Food Stores. (Number of stores estimated significantly below that of other Surveys.)

## DOLLARS PER DAY EDITORIAL

Earlier this year I was asked by a major oil company to prepare a briefing for their senior management on the Convenience Store business. I've used part of the outline I prepared at that time for the editorial this year.

### 1. What is a Convenience Store?

A convenience store is a store that charges higher prices than charged by mass marketers. This is the most important thing about convenience stores. It is the least understood characteristic of convenience stores.

The mass market is price sensitive. The mass market represents about 90% of the demand for most items. The convenience market represents about 10% of the demand for most goods. It fills the time and place function of retailing.

The Convenience Store Industry tries to define a convenience store by size. Store size is a result of the function being performed. It is not a distinguishing characteristic. Over long periods of time, building size has little to do with sales per square foot. Mass market retailers must have the lowest price or the greatest value if they are to attain and maintain volume leadership.

Some merchants do not understand this. Sales leadership is rarely static. There has been a continual evolution in retailing. The evolution is towards greater efficiency: Sell more goods for less money.

The process is relentless. Yet, evolution is invisible to the participants. It appears to move so slowly that even some of the participants do not recognize that change is taking place. Concept improvements are generally made by outsiders. Successful operators may not recognize the need to change until it is too late. Many companies move from the mass market to the convenience market without recognizing it.

Safeway was a mass market retailer. They maintained price and volume leadership. They were supplanted by other retailers and other forms of retailing. Safeway is now the leading convenience store retailer in Northern California. They operate large stores that supply the convenience function since they are not price competitive. They no longer are the basic source of supply for the goods they carry for the price conscious mass market purchaser. They added many gimmicks in attempts to hang onto volume. They operate extended hours. Their stores are open on holidays. They develop photos and sell lottery tickets. They have complicated their food retailing offer to the extent that basic food consumers are confused. They have ignored the reality of the mass market. The process of deterioration from being a mass market retailer has begun. It is probably irreversible.

There is another example in the Dallas/Fort Worth market. Two hypermarts have opened in the past twelve months. They assumed price leadership and have thus relegated those merchants who are unable or unwilling to match their price points to the convenience market. The sales volume results for the market are:

First Year annual sales of the first Hypermart:
$150 Million.

Average Supermarket volume in the Dallas/Fort Worth metroplex has declined an estimated 7%.

This is important because as Bert McCammon states:

> "Retailers operate relatively close to their break-even points and thus are extremely vulnerable to any downturn in sales and cash flow. Even subtle shifts in the balance of power can create major downside risks for most firms."

Generally speaking if you take away 5 to 10% of a retailer's sales, you have taken away his business.

It's important for operators to determine what kind of business they are attempting to operate. It's important that they recognize the retailing environment in which they operate. All retailing offers have their possibilities, their opportunities, and their limitations. Unfortunately, most opportunities represent tradeoffs. Whatever type of retail offer you choose, you must know what you are. Many convenience store operators, particularly newer convenience store operators don't understand the dynamics of a convenience store operation. They don't know if they are in the Convenience Store business or the Mass Market.

A convenience store sells less goods for more money. A mass market retailer sells more goods for less money. Keep this distinction in mind when you spend money in retailing.

### 2. What is the historical background of the convenience store?

Small non price competitive convenience stores were started to save declining commodity manufacturers and distributors. The ice, dairy and gasoline businesses are the prime examples. People entered the convenience business to save failing distribution systems. Their merchandising emphasis generally followed their historical business orientation. The history of dairies and refining companies is similar in this regard.

Convenience stores were called drive-in stores, bantam markets, and midget markets. I was present when the term "convenience store" was coined. Everyone present seemed to understand that higher prices were charged by these stores and that those higher prices could offset the costs of operation at that time. They understood that we operated small stores because you could not develop enough margin dollars to pay the expenses incurred in operating larger stores under a higher price format.

John Thompson of the Southland Corporation once stated as a participant in a panel of which I was the moderator "My father's contribution to this business was that he invented high prices." Mr. Thompson recognized that the margin created from charging higher than market prices for the sale of a few items from a small ice house would help pay for the costs of operation at that time and still create a profit. This created the convenience store business as we have known it.

Some of the major historical changes in the convenience store business have been:

| Development; | Year |
|---|---|
| 7-Eleven buys its first cash registers; about 100 stores | 1951 |
| Closed front Stores and cold climate Northern entry | 1957 |
| Addition of Gasoline on a self service basis | 1964 |
| Addition of Slush Drinks | 1964 |
| Twenty Four hour operation | 1968 |
| Game Machines | 1973 |
| Delis and Sandwich Counters | 1975 |
| Fountain Drinks | late 70's |
| Fast Food business | 80's |
| Oil Companies in C-Business | 80's |
| Lottery Tickets | 80's |
| Video Rentals | 80's |

The development of margin dollars from the sales of basic grocery type products is limited by the belief that higher gross margin percentages should be developed to cover higher costs. As convenience stores became less price competitive, margin dollars from the sales of basic grocery items declined. As expenses rose, people look for gimmicks to boost margin dollars enough to cover expenses.

### 3. How big is the market for food and gasoline?

Progressive Grocer magazine estimates that total food store sales in 1987 were $313 Billion Dollars. The U.S. Federal Highway Administration reported that 109 gallons of Highway gasoline was sold in 1987. These are two of the largest business groupings in the country. There is a convenience element and a mass market element to both of these businesses.

As I have already indicated, about 90% of the potential volume in these categories is price sensitive and thus belongs to the mass market. Convenience store operators and potential convenience store operators need to know that they will get their volume from only 10% of the total market.

### 4. How many Convenience Stores or C-type units are there now?

No one knows for sure. The various estimates for convenience food stores are as follows:

| | |
|---|---|
| Progressive Grocer Magazine | 50,000 |
| Convenience Store News | 80,000 |
| National Association of Convenience Stores | 67,500 |
| National Petroleum News | 70,000 |

The estimates of the number of convenience stores that also sell gasoline are as follows:

| | |
|---|---|
| Convenience Store News | 58,000 |
| National Petroleum News | 39,200 |
| National Association of Convenience Stores | 39,825 |
| Dollars Per Day Survey | 39,151 |

All figures pertaining to the number of convenience food stores and the number of convenience food stores selling gasoline are wild guesses. I hope no one is acting based on any projections from these figures. The only thing we really know about the number of these units is that there are too many. Oil companies hate for you to say these figures are wild guesses. In oil companies, figures rise to the level where the reservations of the person who made the wild guesses are forgotten. People who make up these figures for the oil companies tell me they are always astounded as to the decisions that are made based on their guesses.

### 5. How many units will it take to serve the convenience market for food?

Average Daily Store Sales depends on how many stores there are. In a $313 Billion National Food Store Market with a 10% convenience store share, and the following number of stores, sales would be:

| # OF C-TYPE STORES | THEIR AVERAGE DAILY SALES WILL BE: |
|---|---|
| 67,500 | $1,270 |
| 70,000 | $1,225 |
| 80,000 | $1,071 |
| 100,000 | $ 857 |
| 200,000 | $ 429 |

**6. How many gasoline pumping units do there need to be in a 109* Billion Gallon Annual Gasoline Market?**

*1987 National Highway Gallonage

| NUMBER OF GASOLINE UNITS | AVERAGE MONTHLY GALLONAGE PER GASOLINE UNIT WOULD BE: |
|---|---|
| 100,000 | 90,833 |
| 125,000 | 72,666 |
| 150,000 | 60,555 |
| 200,000 | 45,416 |
| 250,000 | 36,333 |

There are now estimated to be between 200,000 and 250,000 gasoline retailers of various kinds operating in the United States. It's pretty obvious we need less.

**7. Here is a quick review of the present operating companies and operating groups in the business.**

The traditional old line Convenience Food Store Companies. Also see the reviews on the individual companies in the historical summary pages. This is a very quick outline of my general thoughts on these companies:

**Southland**

Debt problems; 4 Billion is a lot at 16%

Concept problems; It gets weaker all the time

Leadership problems; Can people who have always been rich, operate as poor boys?

Facility problems; facilities deteriorate rapidly when you don't spend money on them. These stores are fast becoming blind news stands.

Location problems; Most of their prime locations are secondary locations to the oil companies.

Competition problems; More supermarket operators unwittingly become convenience store operators every day.

League problems; They are now operating a poor club in the big leagues.

**Circle K**

Wonder of the World

May have 5,000 stores

Cost based operation switched to promoter driven operation

Cost dollars will overtake Margin Dollars developed

**National Convenience Stores**

Pulling back to markets they saturate gives them some unique possibilities.

Still the possibility American Financial will combine them with Circle K

**Munford**

Once proud company likely to be gone soon.

Long history — no future.

No Management

No Concept

No Company

**Sunshine Jr.**

Not worth commenting upon again.

**Silcorp**

They are the Munford of the North.

**Casey's**

I visited them in May and was impressed with the way they had met their market. Most operators discount them. If you want to be in the Convenience Store business, you should study Casey's.

**Dairy Mart**

I don't blame the Chairman of this company for wanting to share the credit with his people.

There also appears to be plenty of blame to share.

Some words on some of the Major Oil Companies:

**Arco**

Gasoline volumes impressive.

Gallonage based primarily on price and the unwillingness of other majors to meet their gasoline pricing.

Minimal store operation. Operators will pay high rents for cheap gas.

Success entirely dependent on the lack of competitive strategies by other majors.

Vulnerable offer.

**Chevron**

Still sleeping. Likely to continue. Very well insulated management.

**Union**

Doesn't want their stores to sell alcoholic beverages. Doesn't sell much per unit. Great real estate. Likely to be operated by another company soon.

**Exxon**

They just did a great job of replacing a 2 bay station with a 3 bay station in our market. Probably only cost them a million.

**Shell**

Appear to me to be the best marketers.

Good looking units. Flower power is impressive.

**Oil Companies in general:**

Oil Companies do not employ merchants or philosophers. You probably cannot awaken sleeping giants. Let us hope they spend their billions upgrading and remodeling programs without figuring out how to market.

**Other Categories of Operators:**

**Gasoline Jobbers**

Don't seem to understand food retailing. Appear to do well in noncompetitive areas. Some have generational problems.

**Dealers**

I'm glad the oil companies have them. Dealers appear to be smart people who are generally very provincial and lack vision. Most of them appear to have adapted to oil company logic so they lack any view of reality.

**Immigrants**

Immigrants can operate cheaper than anyone so they have a good chance for success. Most are aggressive and hardworking. They are a potential threat to many existing operators. Fortunately most of them do not yet understand the Golden Rule and customer relations. Immigrants are the most likely class to succeed as convenience store retailers.

### 8. Are there any product problems?

Yes. Many merchants are running out of products. The problem is particularly severe in the Convenience Food Store business.

**Cigarettes**

Nationally there were 730 Billion cigarettes sold in 1981. In 1988 there were 557 Billion cigarettes sold. That's a 31% decline in unit volume. Fortunately for convenience stores, most of their customers smoke. Further declines in cigarette unit sales may have a severe impact on convenience store sales. Convenience stores sell more cigarettes today than any other type of retail store.

**Soft Drinks**

Per Capita consumption in 1975 — 26.3

Per Capita consumption in 1987 — 43.4

Percentage increase in Per Capita Consumption in 12 years was 65%.

While soft drinks are a major sales category in convenience stores, convenience stores are not the basic supply source for soft drinks. Most convenience store soft drink sales are single unit sales. Soft drinks are a price sensitive category. Supermarkets are the favored channel of trade for soft drink companies. Since convenience stores have never been able to buy soda pop competitively, they have been unable to sell soda pop competitively.

**Alcoholic Beverages**

In places where alcohol sales are allowed, alcoholic beverages have always been an important part of convenience stores sales. They have generally been able to buy these items competitively. Beer drinkers have traditionally been convenience store customers.

Sales of these items are generally on the decline. Note the following sales information from the State of California taxing authorities. These same trends appear to be true of the United States as a whole.

Per Capita hard liquor consumption declined for the eighth consecutive year in 1987. Since 1979, the total decline has been 25.2%.

During the 1987-1988 fiscal year, which ended on June 30, Californians drank 4.4% less beer on a per capita basis than the year before. They drank 4.5 gallons of wine per capita, down 3.8% from the previous year.

**Milk**

Many convenience store companies were started by dairies and convenience stores used to be a basic supply source for milk. Milk sales in general have declined, and milk distribution costs have risen. Where convenience stores used to set the market for milk prices, they now generally offer milk as a convenience item. Most supermarkets have a buying and distribution advantage over most convenience stores.

**Bread**

Bread was once a convenience store staple. There was a time when you counted the loaves of bread on hand in a convenience store to estimate store volume. Those days are long gone. Cost effective retailers have captured bread sales. In many areas, the major bakers refuse to service convenience stores because they don't sell enough bread to make the stop cost effective.

**Candy**

This is an easy product to buy, stock, and sell. Candy sells in quantity in convenience stores, but only in single servings. Larger sizes and the mass market are served by the candy price leaders in each community.

**Canned Goods**

These have never been very important for convenience stores. They are in trouble in mass market stores. Many convenience operators have practically discontinued stocking even the major items.

**Fountain Drinks**

This is an important category. All operators are trying to capitalize on this area. Good margin producers, but not enough year round potential in most areas of the country to base an offer upon.

**Fast Food**

The fast food romance has lasted for 5 to 10 years depending upon when the operators became smitten with it. It's been said, "Why do people who have trouble running stores think they can run restaurants?" Fast food is labor intensive and it increases store control problems. Other types of outlets can do a better job.

### 9. What does it cost to operate a convenience store?

It depends when it was built, what was built, where it operates, and who it is operated by. Operating costs vary a lot between companies and between old stores and new stores within the same companies. Some companies appear to have masked the costs of operation for their new stores. They don't want to know what it costs them for new units. See the schedule on page 66 for my estimate of the operating costs for the companies in the survey.

Historically operators with the lowest operating cost make the most money. Convenience store operations are very minimal operations. They won't stand much cost. You simply should not plan to fill the same function in a million dollar facility that you filled in a $100,000 facility. Many people don't want to know this.

Many people, and most particularly the oil companies, fail to recognize there are great limitations to the concept. The only justification I can find for their expenditure of such great sums on their new facilities is that, "everyone else is doing it, it must be alright to do."

Operating costs vary depending on:

a. Cost of the land. (Except that some oil companies don't figure land cost. They say they've historically sold their land for more than they've historically paid for it.)

b. The cost of the facilities. This can vary a lot depending on local government.

c. The type of facility to be built. Remember you get the business the location warrants, you are not rewarded for your facility costs.

d. The maintenance standards for the facility. Some operators have no standards. These operators have generally been the most successful.

e. Staffing. In a convenience operation poor service standards cost less than good service standards.

f. Hours of operation. We have long passed the time when the trade off between cost and benefit of limitless hours was beneficial.

g. The philosophy of the operator.

### 10. How much margin can a C-type store develop?

**Historical: 1964 — Pre-Gasoline**

It cost about a $100 a day a store to operate before 1964. Store margin was 100% of total margin.

**With the addition of Gasoline:**

| | DOLLARS PER DAY PER STORE | % OF TOTAL MARGIN |
|---|---|---|
| Store Margin | $100 | 66% |
| Gasoline Margin | 50 | 34% |
| Total Margin | $150 | 100% |
| **1988 National Convenience Store Example:** | | |
| Store Margin | $555 | 84% |
| Gasoline Margin | 109 | 16% |
| Total Margin | $664 | 100% |
| **1988 Best Gasoline Based Operations:** | | |
| Store Margin | $ 450 | 45% |
| Gasoline Margin | 550 | 55% |
| Total Margin | $1,000 | 100% |

Each operator needs to decide their scale of operations and their emphasis. It is difficult to develop additional margin dollars from food sales. Not many people will drive past one convenience store to stop at another convenience food store. Many operators have come to rely on the historically high gasoline margins that have prevailed in much of the country during the past several years. You can lose margin dollars faster than expense dollars. See page 66 for margin dollars from traditional operations.

**11. How do you classify today's convenience store operating concepts?**

a. Traditional: Blind News Stands. See the 1984 editorial on the subject.

b. Most Oil Companies: Quik Mart type.

c. Large Store/Large Gasoline Units: High operating cost traded off against higher margins.

d. Snack Based: Arco. High gasoline gallonage vs. low margin per gallon. Relatively low cost.

e. Minimal operation: Small town based. Casey's.

f. Fountain based: Primary offer is single serve soft drinks.

**12. Successful businesses need to have a fundamental advantage.**

a. Location: In the convenience store business, there is no competitive advantage better than having the best location. A better location gives you an advantage over your poorer located competitor, but does not assure you of beating the cost/margin/profit tradeoff. You only get the business your location gives you in the convenience store business. Remember to keep your costs in line with the margin potentials of your locations.

b. Facility: Facility can cut both ways depending on your usage of your facility. All of the items in this area must be handled with care.

c. Buying advantage: Buying advantage is nice to have, but difficult for a convenience store to get and keep.

d. Brand image: Oil companies should worry that their store operations don't detract from their overall brand image. Most oil companies now have a brand advantage. Stores can put that advantage in jeopardy. Oil companies like to believe that they are in the mass market for gasoline sales. The addition of high priced products in their kiosks and convenience stores will erode their mass market gasoline positioning. Customers want clarity of offer. Traditional convenience stores have struggled and failed to overcome this problem for years.

e. Identity: What does this operation stand for? Does it stand for enough so that customers will pass another convenience outlet to find these stores? To date no one has been able to accomplish this in the convenience area.

### 13. What are the problems of the Convenience Store business?

We've pretty well covered this above. I'll list a few of them for you again because they deserve a lot of consideration.

a. Distribution: It costs more to deliver a few goods to a lot of places than it costs to deliver a lot of goods to a few places. Convenience stores are distributionally handicapped. Oil company kiosks are even more distributionally handicapped.

b. Buying: Convenience store buyers are handicapped. Since they plan on selling the goods for more than other merchants they have trouble convincing themselves and their suppliers they should buy at the lowest possible prices. The ability to buy is the ability to sell.

c. Control: Reams have been written about control problems. Control becomes more costly and more difficult daily. Control problems take most of the joy out of this business.

d. Image: Customers have strong perceptions of the convenience store business. They really think of them as blind newsstands. It is too late in the game for traditional operators to overcome this handicap.

There are few areas in the United States that have a shortage of convenience. However since customers are buying from these stores for their convenience, when someone increases convenience by a few feet they obsolete existing successful convenience outlets.

### 14. And finally, a few general statements.

a. Warm weather is very important to traditional convenience store success. High temperature and humidity make a convenience store man successful. Everyone is smart over 90 degrees.

b. Because of the weather factor this is a seasonal business. There also seems to be a seasonal correlation between minutes of daylight and sales.

c. The difference between one person and two persons on duty is very significant. Sizing your operation to potential volume and expense is important.

d. The balance between gasoline and store business is important and is changing. One needs to look carefully at this element when planning operations.

I think I've run out of things to say and the interest to say them on the subject of convenience stores. Unless something changes, I suspect this will be the last Dollars Per Day Survey of the convenience store business. I can't believe it took me all these years to understand it.

# HISTORICAL SUMMARY: CASEY'S GENERAL STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1988

Inventory Accounting: LIFO

| | 11TH SURVEY | 12TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | |
| | 4/30/81* | 4/30/82* | 4/30/83 | 4/30/84 | 4/30/85 | 4/30/86 | 4/30/87 | 4/30/88 |
| **CASEY'S GENERAL STORES, INC.**<br>**Des Moines, Iowa** | | | | | | | | |
| Number of Stores | 304 | 339 | 377 | 427 | 482 | 547 | 586 | 653 |
| Store Growth in Year | 29 | 35 | 38 | 50 | 55 | 65 | 39 | 67 |
| Store Days | 105,653 | 117,330 | 130,651 | 146,400 | 165,865 | 185,384 | 204,432 | 226,737 |
| Sales per Day—Company Stores | $707 | $736 | $789 | $806 | $814 | $851 | $926 | $934 |
| Sales Growth $DPD—Company Stores | | $29 | $53 | $17 | $8 | $37 | $75 | $8 |
| Gross Profit Percentage on Store Sales | | | | | 28.5% | 29.2% | 32.6% | 34.3% |
| Gross Profit Dollars Per Store Per Day | | | | | $232 | $248 | $302 | $320 |
| Gross Profit Dollars Per Day Per Store From Gasoline | | | | | $113 | $119 | $121 | $108 |
| Total Gross Profit Per Store Per Day | | | | | $345 | $367 | $423 | $428 |
| % Increase in Gross Profit Per Store Per Day | | | | | | 6.4% | 15.3% | 1.2% |
| Operating Cost Per Store Per Day | | | | | $300 | $309 | $340 | $350 |
| % Increase in Operating Cost Per Day | | | | | | 3.0% | 10.0% | 2.94% |
| Pretax Profit—All Stores $DPD | $4.14 | $14.29 | $22.67 | $30.56 | $44.75 | $58.39 | $83.17 | $77.94 |

*Continued on next page.*

# HISTORICAL SUMMARY: CASEY'S GENERAL STORES, INC.

*(Continued)*

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1988

Inventory Accounting: LIFO

| | 11TH SURVEY | 12TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|
| YEAR ENDED | 4/30/81* | 4/30/82* | 4/30/83 | 4/30/84 | 4/30/85 | 4/30/86 | 4/30/87 | 4/30/88 |
| After Tax Profit— All stores $DPD | $2.11 | $9.98 | $13.49 | $16.03 | $24.98 | $33.70 | $42.11 | $46.53 |
| Store Closures | | 1 | 1 | 0 | 0 | 0 | 5 | |
| Gasoline Units | | | 377 | 427 | 482 | 547 | 586 | 653 |
| $DPD Ranking | | | 8/12 | 8/11 | 5/9 | 3/8 | 1/8 | 1/8 |

*Data taken from the Preliminary Prospectus Dated 8-31-83.

**BASIS FOR PROFIT PER DAY DETERMINATION**

Casey's operated 653 convenience stores in 8 states on April 30, 1988. 446 stores were company operated and 207 stores were franchised. The stores are operated under the Casey's General Store name. 71% of the stores are in Iowa and Missouri.

1. The Annual Report states that sales from company operated units were $139,429,904. No information is given for sales from the franchise units. Average daily sales as computed here and shown above are for the 446 company operated units only.
2. Store Days:
   Company Units:
   Store days of stores open all year: 370 × 366 = 135,420
   Store days of new stores (half year only): 76 × 183 = 13,908
   Total company operated Store Days: 149,328
   Franchise Units:
   Store days of stores open all year: 207 × 366 = 75,762
   Stores days of units converted to company units (half year only). 9 × 183 = 1,647
   Total Franchise Store Days: 77,409
   Total Store Days — all stores: 226,737
3. Sales per Store per Day:
   Store sales of $139,429,904 divided by 149,328 store days equals average sales of $934 per store per day for the year.
4. Pretax Profit:
   Pretax profit of $17,672,501 divided by total store days of 226,737 results in a pretax profit of $77.94 per store per day.
5. After Tax Profit:
   After tax profit of $10,550,501 divided by total store days of 226,737 results in an after tax profit of $46.53 per store per day.
6. Casey's became a public company in October 1983.
7. All Casey's stores sell gasoline. Above sales do not include gasoline sales.
8. The Company shows individual store information for stores open at least one full year:

| | 1985 | | DPD | 1986 | | DPD | 1987 | | DPD | 1988 | | DPD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Annual | Per Day | Growth | Annual | Per Day | Growth | Annual | Per Day | Growth | Annual | Per Day | Growth |
| Average Sales of Grocery & General | $310,735 | $851 | $20 | $322,727 | $884 | $33 | $346,745 | $950 | $66 | $355,467 | $971 | $ 21 |
| Average Gross Profits on Gasoline | 41,997 | 115 | 14 | 44,252 | 121 | 33 | 45,738 | 125 | 4 | 39,929 | 109 | -16 |

Comments: Casey's continues to prosper. In May I traveled to Des Moines, Iowa and had lunch with Donald Lamberti. I was impressed with how well they seem to have matched their stores to their market. Sales growth did not keep pace with inflation, but operating cost growth exceeded margin growth by only $5 per store per day. The company has a formula that works in the areas where they operate.

# To Our Shareholders

It's appropriate that we observe the 20th anniversary of the founding of our company with plans to construct a new corporate home, a step that affirms the remarkable growth of our company. The new Casey's headquarters in Ankeny, Iowa will consolidate administrative, distribution and service centers in one location, providing us with an attractive, cost-efficient facility that will see us well into the 21st century.

A strengthening economy, new products and the addition of 67 stores resulted in fiscal 1988 sales of $336.4 million, 18.5 percent higher than 1987. Earnings of $10.6 million were up by 22.6 percent.

Prepared foods account for a growing share of our business. Casey's customers want products that they can eat on the go, or take home for a sit-down meal. We've responded with made-from-scratch pizza, hot sandwiches, donuts and rolls, plus several other top-quality products. Our newest item is Casey's Crispy Fried Chicken. After a successful test marketing program, we are expanding the availability of chicken at the rate of five stores per week.

In most of the small towns that we serve, there is limited access to videotape rentals, including top-40 selections. Recognizing this, we intend to have video rentals in 80 percent of our stores by year end. Video rentals require two store visits, one to rent and one to return, so the product is a traffic builder.

Gasoline continues to be an important part of the company's success and all Casey's stores offer self-service gasoline at competitive prices

Emphasis on growth has been a key factor in our success. At the same time, we are challenged to respond to this growth in a planned manner.

Our need for more good employees will continue. In the current fiscal year, we expect to add 75 stores, the most ever for us in a 12-month period. Each store requires an average of 11 employees.

A corporate-wide campaign now is in place to encourage more applicants, particularly from people of retirement age. Their experience and skills learned in previous jobs make them ideal candidates.

As I look to 1989, and longer term, I am confident that Casey's is well-positioned for continued success. We remain dedicated to the same principles and high standards of performance that have made us one of the leading convenience-store chains in America.

Donald F Lamberti

Donald F. Lamberti
President & Chief Executive Officer
July 15, 1988

*Casey's employment grew beyond the 4,000 mark in fiscal 1988*

# The Year in Review

The company's record performance in fiscal 1988 continued a string of annual gains dating to when the first Casey's store opened in 1968. The company surpassed the 600-store mark during the 1988 fiscal year. There were 653 stores in operation April 30, including 446 company-owned stores and 207 franchise units.

*Financial World*, one of the nation's leading investment and business magazines, ranked Casey's 247th out of 500 in its annual listing in August of "America's Fastest Growing Companies." In November, *Forbes* magazine ranked Casey's among America's 200 best small companies. Casey's ranked 119th, with an average annual return of 13.1 percent.

## Re-organization

Walter J. (Bud) Carlson, secretary/treasurer and a company director, retired from the company in August. He had served as a valuable member of the company's management team almost since the company's beginning.

With his retirement, John G. Harmon became secretary, while Douglas K. Shull assumed the position of treasurer and chief financial officer. Steven C. Adams and Thomas W. Pollock were elected vice presidents.

The board of directors was expanded in October from four members to seven, including three outside directors. Joining the board were Harmon, Shull and Kenneth H. Haynie, a partner in a Des Moines law firm.

## 500th Pizza Store

El Paso, Ill. (pop. 2,676) has the distinction of being the home of the 500th Casey's pizza store. The event was marked in late October with a special ceremony. By the end of the fiscal year, the company was offering pizza in 549 stores, or more than 80 percent of the company's retail outlets.

First introduced in 1985, made-from-scratch pizza is the company's most successful prepared-food product. In order to promote lunch-time sales, the company equipped stores with see-through food warmers, making it possible for customers to purchase handy, carry-out pizza-by-the-slice, as well as hot sandwiches, and garlic and cheese bread.

## Personnel, Training Expand

The company's rapid expansion, plus the introduction of more prepared-food items, has created a need for employees who are well trained in store management principles and in daily operations. Casey's created the new position of director of human resources to handle personnel, training and education development programs company-wide.

The department is currently working on a series of video training films that will be used at the store level to help new employees learn their jobs. In addition, Casey's plans to construct a central training facility at its Ankeny headquarters. It will include a complete store set-up, classrooms and audio-visual facilities. Career employees will be brought to Ankeny for an intensive training program to prepare them for advancement to management and supervisory positions.

## New Company Headquarters

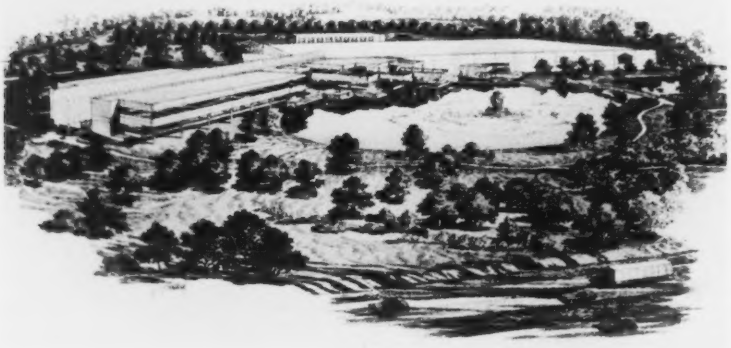
A 36-acre site along Interstate 35 just north of Des Moines, with access to nearby Interstate 80, has been selected as the home for the consolidated operations of Casey's General Stores, Inc. Groundbreaking is planned for late fall of 1988. The company plans to occupy at least a portion of the facility by mid-1989.

The campus-style development will include a two-story, 60,000 square-foot office building and a 140,000 square-foot distribution center. The distribution center will be three times the size of the company's current distribution center in leased space in Urbandale, Iowa.

There also will be a truck service/maintenance center to accommodate the company's fleet of gasoline and grocery delivery vehicles, plus 150 other company-owned vehicles.

The office and distribution center will feature pre-cast concrete walls, with horizontal window bands, and will be connected by an atrium-style building that will house a child care center, a cafeteria and the employee training operations.

The tree-shaded campus will be fronted by a four-acre pond. Estimated construction cost is $16 million.



*Artist's rendering shows the company's new headquarters complex, to be located along Interstate 35 in Ankeny, Iowa.*

## Data Processing Advances

A new half-million dollar Telxon hand-held ordering system is providing Casey's store managers with greater flexibility and speed in processing critical information. All stores are now using the ultra-modern system for such operations as payroll, gasoline and grocery ordering. In addition, the stores are using new day-sheets that are providing management with greater detail on various store operations.

The computerized Telxon units are saving store managers as much as an hour a week over the previous system.

*Hand-held computer represents a faster, more efficient way for stores to communicate payroll, accounting and ordering information.*

## Crispy Fried Chicken

In prepared foods, Casey's always looks to offer customers a broader selection. In 1988, several stores were selected to begin testing customer reaction to chicken. The test was conducted over a six-month period, using a top-quality chicken product fried in cholesterol-free oil.

The test marketing revealed a significant demand for chicken. As a result, Casey's is now adding a high-quality, frozen chicken product to stores, with the goal of having chicken available in 300

*The company's newest product, Crispy Fried Chicken, is proving to be very popular with customers.*

Casey's outlets by the end of 1988.

The chicken, which takes about 28 minutes to prepare, is available by the piece, in two or three-piece dinners or by the bucket. The recipe has been specially formulated for Casey's. No one else offers the same product.

## Big Video Demand in Small Markets

Even though many of the company's customers live in small communities, they want the same products and selection as in large cities. As a result, Casey's is accelerating its plan to have videotape rentals available in 500 stores by December of 1988.

The company recently contracted with CEVAXS (CVS) Corporation to handle this popular entertainment product. CVS is one of the leading video distributors in North America. It supplies high-quality tapes, plus places great emphasis on product rotation and making certain that its outlets offer the most popular movies on a timely basis.

CVS RENTA-MOVIE
VHS MOVIE AND VIDEO MACHINE RENTALS
MOVIES
3 EASY STEPS TO RENT A MOVIE
THERE'S ALWAYS SOMETHING NEW

*Videotape rentals build store traffic, since each transaction involves two store visits, one to rent and one to return.*

## HISTORICAL SUMMARY: CIRCLE K

Data Taken from the Annual Report
and 10 K for the Year Ended April 30, 1988

Inventory Accounting: FIFO

| | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | | |
| | 4/30/71 | 4/30/75 | 4/30/80 | 4/30/83 | 4/30/84 | 4/30/85 | 4/30/86 | 4/30/87 | 4/30/88 |
| **CIRCLE K**<br>**El Paso, Texas** | | | | | | | | | |
| Number of Stores | 536 | 1,024 | 1,200 | 1,221 | 2,185 | 2,669 | 3,372 | 3,507 | 4,077 |
| Store Growth in Year | 113 | 77 | 42 | 10 | 964 | 484 | 703 | 135 | 570 |
| Store Days | 175,074 | 359,746 | 431,514 | 443,835 | 567,618 | 896,488 | 1,120,429 | 1,255,485 | 1,313,611 |
| Sales Per Day | $535 | $634 | $883 | $1,038 | $1,139 | $1,216 | $1,221 | $1,241 | $1,255 |
| Sales Growth $DPD | $28 | $42 | $84 | $35 | $101 | $77 | $5 | $20 | $14 |
| Gross Profit Percentage | | | | | 23.9% | 25.5% | 26.5% | 27.9% | 27.6% |
| Total Gross Profit Dollars | | | | | $245,705,000 | $429,480,000 | $559,729,000 | $639,948,000 | $720,785,000 |
| Gross Profit Dollars Per Store Per Day | | | | | $433 | $479 | $500 | $510 | $549 |
| % Increase in Gross Profit Per Store Per Day | | | | | — | 10.7% | 4.3% | 2.0% | .64% |
| Operating Cost Per Store Per Day | | | | | $362 | $413 | $437 | $435 | $482 |
| % Increase in Operating Cost | | | | | — | 14.2% | 5.7% | -.5% | 10.8% |
| Pretax Profit $DPD | $33.39 | $25.15 | $73.47 | $54.43 | $71.18 | $65.91 | $63.04 | $75.18 | $66.76 |
| After Tax Profit $DPD | $16.54 | $13.11 | $39.28 | $29.94 | $38.16 | $37.27 | $35.49 | $39.37 | $45.98 |
| Store Closures | 3 | 12 | 22 | 10 | 31 | 33 | 95 | 149 | 255 |
| Gasoline Units | | 516 | 726 | 798 | 1,463 | 1,719 | 2,293 | 2,433 | 3,011 |
| $DPD Ranking | 1/10 | 7/13 | 1/13 | 4/12 | 3/11 | 2/9 | 2/8 | 2/8 | 2/8 |

## BASIS FOR PROFIT PER DAY DETERMINATION

Operated 4,077 Circle K stores on April 30, 1988 in 26 Western, Southwestern, and Southern states. 65% of the stores are in Florida, Texas, Arizona, and California.

1. The annual report states that merchandise sales were $1,649,200,000. Gasoline sales were $964,600,000.
2. Store Days:
   Store days of stores open all year: 3,507 × 366 = 1,283,562
   Store days of the 473 Seven Eleven Stores acquired April 5, 1988: 473 × 26 = 12,298.
   Store days for the net of Stores opened and Stores closed during the year (half year only): 97 × 183 = 17,751
   Total Store Days: 1,313,611
3. Sales per Store per Day:
   Store sales of $1,649,200,000 divided by 1,313,611 store days equals average daily sales of $1,255 per store day. Store sales do not include gasoline sales.
4. Pretax Profit:
   Pretax profit of $87,701,000 divided by 1,313,611 store days results in a pretax profit of $66.76 per store per day.
5. After Tax Profit:
   After tax profit of $60,411,000 divided by 1,313,611 store days results in an after tax profit of $45.98 per store per day.
6. 62 stores are operated by contract operators and the sales are included. This number decreased by 5 stores from the previous year and 88 stores over the past four years.
7. Profit figures include the results of international operations, an ice company, and various subsidiary food operations. The profit per day figures are either too high or too low depending on the profitability of these operations, since the figures for these operations are not shown.

Comments: Circle K continued its rapid growth in store units during the year. There was virtually no sales growth in average daily store sales. Store margin increased at the rate of 8% and store expense increased 11% over the previous year on a Dollars per Day basis. 255 stores were closed during the year. Since 1974, 727 Circle K stores have been closed. 69% of those have been closed in the last 3 years. Lottery income was about $12.19 per store per day in the 2,170 stores that sold lottery tickets.

# CIRCLE K

## EXCERPT FROM THE ANNUAL REPORT OF CIRCLE K, 12.31.87

**C**ircle K is again pleased to report increases in both revenues and net earnings for fiscal year 1988. These results were achieved despite the highly competitive convenience store environment and the less than vigorous economies in some of our operating areas.

These increases were accomplished by maintaining our competitive edge through aggressive marketing, continued control of operating costs and a lower income tax rate.

Included in Circle K's net income is a non-recurring cumulative effect change in accounting principles of $5,500,000 or $.08 per share fully diluted. The effect of that change (see Note 9 on page 26) increased the Company's net earnings to $60,411,000 or $1.04 per share fully diluted.

For the year ended April 30, 1988, net earnings before the accounting change increased 11% to $54,911,000 compared to $49,430,000 last year. Our fully diluted earnings per share were $.96 versus $.85 last year, up 13%, and revenues for the year were $2,656,722,000, 15% better than the $2,316,784,000 of the previous year.

Our fourth quarter net earnings were $14,018,000 compared to $10,721,000 last year. Fully diluted earnings per share for the quarter increased 37% to $.26 versus $.19 the year before. Revenues for the fourth quarter were $669,318,000, an increase of 11% over revenues of $603,843,000 in the comparable quarter last year.

**G**asoline sales are an integral part of Circle K's operations. During fiscal 1988 we sold more than a billion gallons of gasoline. Gas revenues of $964,602,000 represented 36% of our total revenues for the year. Not only do gasoline operations provide profits on their sales, but they also attract additional customers into our stores enabling us to increase merchandise sales.

**W**e continue to test not only new food items which we produce in our Phoenix commissary, but also items from vendors which show promise. For example, the Dunkin Donut™ program, tested last year, is a great success and is being expanded as rapidly as possible. Other branded programs such as tea and coffee, soft ice creams and juice items are creating favorable reactions from consumers.

**W**e engaged in promotional campaigns in cooperation with vendors including the successful Hulk Hogan promotion in the summer of 1987 and the "Crocodile" Dundee™ II Thirstbuster™ advertising program in the summer of 1988.

**W**e aggressively promote sales of state-run lottery game tickets. A new lottery was added in Florida in January of 1988 and with more than 800 stores in Florida, lottery ticket sales became a significant revenue producer.

**W**e continue to upgrade the appearance and functionality of our stores. During fiscal 1988 we remodeled 490 stores and built 252 new stores. Of those, 44 were moved to major intersections replacing mid-block or secondary locations. We believe that a clean, modern and highly visible store is one of our most effective marketing tools as we continue to make a strong effort to attract the new [illegible] customer.

**T**he most financially threatening problem your Company has faced during the past five years was resolved on April 25, 1988 in a U.S. District Court in San Diego when a jury exonerated Circle K and other defendants of any blame or liability in what became known as "the Nucorp litigation," a lawsuit which was filed in 1983.

Circle K management had contended from the beginning that the lawsuit was without merit and completely unwarranted. Naturally, we are pleased with the jury's verdict, that the Company was exonerated and not assessed any damages. In July 1988 a motion by attorneys for the plaintiffs for a new trial against Circle K was denied. While the plaintiffs' time to file an appeal has not yet expired, we believe there is no basis for a successful appeal.

# CIRCLE K

## EXCERPT FROM THE ANNUAL REPORT OF CIRCLE K, 12.31.87

**O**n April 5, 1988 we completed the acquisition of 473 7-Eleven stores, most of which were in the southeastern United States. The acquisition moved us into our 26th state, South Carolina, and significantly increased our presence in Louisiana, Georgia, Tennessee and North Carolina. It also added more stores to our operations in Texas, Alabama and Florida.

In May we signed a definitive agreement to acquire the 538 stores and the gasoline marketing operation of The Charter Company. That acquisition is expected to be completed in early October. While the majority of Charter's stores are in the southeast, the acquisition also provides us with more than 100 stores in the economically attractive New England area.

Our International operation continues to expand. In October 1987, we created a joint venture with Rupert Murdoch's News Corporation, PLC. Circle K sold 50% of its then wholly-owned United Kingdom subsidiary to News Corporation and signed a licensing agreement with the new joint venture for further expansion in Europe and Scandinavia. In January 1988, the UK joint venture acquired 45 stores in the Greater London area to bring the number of stores in the United Kingdom to 177 at year end.

**I**n the wake of the October 19 stock market crash, Circle K purchased 771,800 shares of its common stock in the open market. In early November we offered shareholders the opportunity to exchange common shares, at $12 per share, for a new issue 15% Junior Subordinated Debenture due 1997. The exchange was completed in December 1987 with approximately 6,000,000 shares tendered and accepted.

**W**e continued to develop stronger division, district, zone and store managers, promoting from within where qualified personnel were available, retaining good management personnel from acquired companies and by hiring experienced field management from the industry. On December 28, Larry Zine, Vice President of Financial Reporting, became Senior Vice President and Chief Financial Officer of the Corporation, replacing Bill J. Farmer who resigned to pursue personal business interests.

**M**any positive things were accomplished during the year just ended. Consequently, we're optimistic about the Company's prospects for the future and we enter the new fiscal year with renewed dedication to the continued improvement of the Company's operating results and the enhancement of your investment.

Sincerely,

NYSE
CKP CKP
CKP CKP

## HISTORICAL SUMMARY: SOUTHLAND CORPORATION

Data Taken from the 10 K
for the Year Ended December 31, 1986

Inventory Accounting: LIFO

| | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 13TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | | |
| | 12/31/70 | 12/31/74 | 12/31/79 | 12/31/82 | 12/31/83 | 12/31/84 | 12/31/85 | 12/31/86 | 12/31/87 |
| **SOUTHLAND CORPORATION**<br>**Dallas, Texas** | | | | | | | | | |
| Number of Stores | 3,734 | 5,171 | 6,805 | 7,165 | 7,299 | 7,473 | 7,519 | 7,672 | 7,818 |
| Store Growth in Year | 197 | 370 | 206 | 163 | 134 | 174 | 46 | 153 | 146 |
| Store Days | 1,327,056 | 1,820,075 | 2,446,127 | 2,585,396 | 2,639,613 | 2,703,272 | 2,736,017 | 2,772,434 | 2,826,852 |
| Sales Per Day | $564 | $708 | $1,087 | $1,532 | $1,656 | $1,773 | $1,893 | $2,033 | $2,148 |
| Sales Growth $DPD | | $55 | $137 | $138 | $124 | $117 | $120 | $140 | $115 |
| Estimated Gross Profit Percentage—on store sales* | | | | | | 34% | 34% | 34% | 33.8% |
| Gross Profit Dollars Per Store Per Day | | | | | | $603 | $644 | $691 | $726 |
| Gross Profit Dollars Per Store Per Day from Gasoline | | | | | | $38 | $44 | $61 | $55 |
| Total Gross Profit Per Store Per Day | | | | | | $641 | $688 | $752 | $781 |
| % Increase in Gross Profit Per Store Per Day | | | | | | — | 7.3% | 9.3% | 3.9% |
| Operating Cost Per Store Per Day | | | | | | $590 | $624 | $693 | $845 |
| % Increase in Operating Cost | | | | | | | 5.8% | 11.0% | 21.9% |
| Pretax Profit $DPD | $17.15 | $25.45 | $38.42 | $59.34 | $55.58 | $50.80 | $63.99 | $59.19 | -$64.45 |
| After Tax Profit $DPD | $8.50 | $12.64 | $28.13 | $33.97 | $39.46 | $47.24 | $48.17 | $48.24 | $-22.32 |
| Store Closures | 139 | 142 | 460 | 271 | 364 | 224 | 339 | 286 | 299 |

*Continued on next page.*

## HISTORICAL SUMMARY: SOUTHLAND CORPORATION

*(Continued)*

Data Taken from the 10 K
for the Year Ended December 31, 1986

Inventory Accounting: LIFO

|  | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
|  |  |  |  |  | YEAR ENDED |  |  |  |  |
|  | 12/31/70 | 12/31/74 | 12/31/79 | 12/31/82 | 12/31/83 | 12/31/84 | 12/31/85 | 12/31/86 | 12/31/87 |
| Gasoline Units | 75 | 502 | 2,107 | 2,827 | 3,007 | 3,173 | 3,213 | 3,594 | 3,545 |
| $DPD Ranking | 3/10 | 6/13 | 7/13 | 3/12 | 5/11 | 4/9 | 1/8 | 3/8 | 8/8 |
| Percentage of stores that sell gasoline | 2.0% | 9.7% | 30.9% | 39.5% | 41.2% | 42.5% | 42.8% | 46.8% |  |

*Note Page 51 of Southland purchase offer circular

## BASIS FOR PROFIT PER DAY DETERMINATION

The Southland Corporation operated 7,818 7-Eleven convenience stores on December 31, 1987. These stores were in 49 states, the District of Columbia, and Canada. 4,754 of the 7-Eleven stores were company operated, and 39% or 3,064 were franchised.

The company also operates 319 High's Dairy Stores and has other business activities. Most of these activities, except for the Convenience stores and their supporting distribution and food processing centers will be divested during 1988.

The 10 K of December 31, 1987 supplies enough information to make a reasonable determination as to convenience store operating results. There is not a good description of which operations are considered convenience stores. The 10K states that 95% of the Company's total sales were convenience store sales. In this report we have divided the 7,818 7-Eleven stores into the 10K's reported convenience store figures to determine totals and averages. To the extent that Highs and other types of stores are included in the convenience store figures, our figures are overstated.

1. The 10K states that Convenience store sales were 95.2% of total sales for the first seven months of 1987. Convenience store sales were 94.7% of total sales for the last five months of the year. Thus 95% of total sales for the year were convenience store sales. Total Company sales: $8,076,454,000 × 95% = $7,672,631,000. The 10K states that $1,600,000,000 of these sales dollars were from the sale of gasoline. We have deducted this number from the convenience store sales to arrive at convenience store merchandise sales of $6,072,631,000.
2. Store Days:
   Store days of st[illegible] open all year: 7,672 × 365 = 2,800,280
   Store days for new stores (half year only): 146 × 182 = 26,572
   Total Store Days: 2,826,852
3. Sales per Store per Day:
   Sales of $6,072,631,000 divided by store days of 2,826,852 equals average sales of $2,148 per store per day for the year.
4. Pretax Profit:
   Total Pretax Profit, first seven months of 1987 = $43,918,000.
   Total Pretax Loss, last five months of 1987 = $235,709,000.
   Total Pretax Loss for 1987 = $191,791,000.
   We are assigning profit and loss on the same basis as sales, and 95% of total company sales are from convenience stores. Thus convenience store pretax loss for 1987 was $182,201,450. This number divided by store days of 2,826,852 equals pretax loss per store per day of $64.45 for 1987.
5. After Tax Loss:
   We are assigning after tax loss on the same basis as pretax loss, 95% to convenience stores. After tax convenience store loss of $63,100,900 divided by store days of 2,826,852 equals after tax loss per store per day of $22.32.

Comments: The Southland situation is really exciting and very interesting. It is very complex and I don't pretend to know much about their particular business or their financial situation. I do have some general observations based on a couple of hours of reading their prospectus and 10K, and my experience in this business.

1. I can't help but smile when I look at their position. 7-Eleven was always the giant of the convenience store business. I used to say that if 7-Eleven put a nail through a tin can over one of their stores in Dallas, by nightfall every convenience store operator in America would have a tin can with a nail through it over their front door. They'd say, "I don't know why I'm doing it, but 7-Eleven's doing it." Times are a changing.
2. Some will question whether all of their interests costs should be assigned to their operations. You have to assign your costs to your operations. They once benefited from their financial strength, now they are paying the penalty paid by all undercapitalized operators. It doesn't look as if it's going to be pretty.
3. During their first five months of private operation, they missed one of their basic assumptions. They projected a 3% real sales growth rate. Their actual real growth from August through September 1987 was a negative–0.58%. They state however that they were able to increase consolidated gross margin from 20.6% the first seven months of the year to 23.3% the last five months. They say they were able to do this through "the store's more targeted merchandising efforts and the benefits derived from the Company's previous investment in new marketing programs." It appears they raised prices. Convenience store operators fail to understand the tradeoff between price and sales. They are not going to get 3% real sales growth with higher margins.
4. It also looks as if they are losing gasoline gallonage. Their average gallonage per unit dropped by 72 gallons a day in 1987. The 10 K states there have been "certain strategic adjustments that focus on improving profitability from the Company's gasoline marketing operations." This again may be another way of saying, "we are not going to be as aggressive in gasoline pricing as we've been in the past." 7-Elevens do not have impressive average gasoline gallonages. Failure to meet the market on gasoline pricing will result in further gallonage declines.

My general impression of 7-Eleven is that they are an undercapitalized company operating in a difficult retailing environment. They are still the leading player in an industry that is in a decline. They have impossible interest costs, and thus generate expenses greater than their margins. They have secondary locations to the new entries into the business. Their facilities and their concept both look outdated and well worn. The wonder is that suppliers still offer them trade credit. Their ship is too big and too old to turn around. Parts of this empire may survive, but the good old days are gone.

### Forecast Balance Sheet Data

| December 31: | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (dollars in millions) | | | | | | |
| Cash and equivalents | $ 50 | $ 152 | $ 50 | $ 71 | $ 199 | $ 304 | $ 174 | $ 50 | $ 50 | $ 134 | $ 50 |
| Other current assets | 520 | 419 | 414 | 428 | 443 | 459 | 476 | 494 | 513 | 534 | 557 |
| Total current assets | 570 | 571 | 464 | 499 | 642 | 763 | 650 | 544 | 563 | 668 | 607 |
| Net property, plant and equipment | 2,478 | 2,098 | 1,845 | 1,655 | 1,525 | 1,433 | 1,422 | 1,387 | 1,375 | 1,379 | 1,393 |
| Investment in Citgo | 270 | 220 | 220 | 220 | 220 | 220 | 220 | 220 | 220 | 220 | 220 |
| Other assets | 276 | 248 | 225 | 208 | 192 | 178 | 168 | 159 | 179 | 170 | 161 |
| Goodwill | 1,970 | 1,164 | 1,074 | 991 | 911 | 828 | 752 | 682 | 621 | 562 | 499 |
| Total assets | $5,564 | $4,301 | $3,828 | $3,573 | $3,490 | $3,422 | $3,212 | $2,992 | $2,958 | $2,999 | $2,880 |
| Total current liabilities (a) | $ 832 | $ 766 | $ 640 | $ 644 | $ 710 | $ 747 | $ 788 | $ 837 | $ 956 | $ 919 | $1,016 |
| Total long-term debt | 4,585 | 3,934 | 3,778 | 3,666 | 3,624 | 3,530 | 3,312 | 2,995 | 3,199 | 3,008 | 2,416 |
| Deferred credits and other liabilities | 75 | 86 | 95 | 100 | 94 | 91 | 90 | 88 | 87 | 91 | 97 |
| Total liabilities | $5,492 | $4,786 | $4,513 | $4,410 | $4,428 | $4,368 | $4,190 | $3,920 | $4,242 | $4,018 | $3,529 |
| Warrants (b) | 18 | 35 | 51 | 68 | 85 | 0 | 0 | 0 | 0 | 0 | 0 |
| Merger preferred (c) | 195 | 239 | 289 | 344 | 408 | 480 | 484 | 489 | 0 | 0 | 0 |
| Shareholders' equity (d) | (141) | (759) | (1,025) | (1,249) | (1,431) | (1,426) | (1,462) | (1,417) | (1,284) | (1,019) | (649) |
| Total liabilities and shareholders' equity | $5,564 | $4,301 | $3,828 | $3,573 | $3,490 | $3,422 | $3,212 | $2,992 | $2,958 | $2,999 | $2,880 |

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(a) Excludes the current portion of long-term debt.

(b) Reflects estimated accretion of Warrant value from 1987 towards estimated value in 1992, when Warrants are assumed to be exercised.

(c) Reflects discount, based on current market conditions, from stated value; stated value is $247 million at date of issue increasing to $519 million in 1992 and thereafter. A value for the Merger Preferred of approximately $19.00 per share has been used, plus accrued dividends to December 31, 1987. See note (e) above.

(d) Includes taxes on the gain on divestitures and asset sales.

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Note: Minor differences between cash flow data and balance sheet are due to rounding.

## General Assumptions

### A. Divestitures and Asset Sales

Southland currently intends to divest the following business units by March 31, 1988: Chief Auto Parts, Dairies Group, Reddy Ice, Tidel, El Ge, Pate Foods and Chem/Food Labs. In addition to these divestitures, Southland also currently intends to sell or redeploy additional assets by December 31, 1988, including the sale or monetization of a portion or all of certain Japanese license royalties, certain vacant store sites and other miscellaneous properties. The forecast also assumes that Southland will sublet a portion of the East Tower of Cityplace Center and certain existing buildings and sell the remainder of the 160-acre parcel at December 31, 1990 for $150,000,000. In addition, as described below, Southland will also divest certain convenience stores to generate $180,000,000 of net proceeds in 1988 and 1989.

The forecast estimates net after-tax proceeds from the divestitures and asset sales described above of approximately $1,169,000,000 ($152,000,000 of which is forecast to occur in 1987).

### B. Convenience Stores

The convenience stores group comprises the largest part of Southland's business. The forecast for the convenience stores group is based upon the following assumptions for sales and other operating statistics. In addition to the store closings discussed below, Southland intends to also sell other unprofitable or marginally profitable stores to generate $90,000,000 of net proceeds in 1988 and $90,000,000 of net proceeds in 1989. The forecast net sales reflect these store divestitures; Southland believes these additional store divestitures will not have a material impact on cash flow.

While the assumptions with regard to margins and growth rates of individual stores have not changed, since the stores targeted for divestiture have on the average lower margins and growth rates than the average margin and growth rate of all stores, the averages of the margins and growth rates on the remaining stores are estimated to be slightly higher than those set forth below.

**1. *Store Openings and Closings.*** Beginning in 1990, 105 stores are closed each year through attrition and relocation, and 105 new stores are opened.

**2. *Merchandise Sales Growth per store (not including the effect of the stores to be divested)***

**(a) *Inflation*** — 3.5% in 1988 and 1989, 4.5% in 1990 and thereafter.

**(b) *Real Growth*** — 3.0% per year for 10 years.

**3. *Merchandise Gross Margins (not including the effect of the stores to be divested)***

| Year | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994-97 |
|---|---|---|---|---|---|---|---|---|
| Gross margin | 33.80% | 33.80% | 34.00% | 34.15% | 34.30% | 34.45% | 34.60% | 34.75% |

**4. *Selling Expenses.*** Selling expenses generally increase with inflation, adjusted for real growth in some cases, except for advertising which is reduced for several years.

**5. *Fixed Expenses***

**(a) *Depreciation*** — Estimates include the effect of capital additions and retirements.

**(b) *Operating Lease Rentals*** — Rentals are based on existing leases and recent experience with lease renewals and expirations, and use a 12.5% capitalization rate for new stores beginning in 1990.

**6. *Gasoline Sales and Margins***

| Year | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total gas gross profits (dollars in millions) | 157.6 | 155.4 | 153.6 | 157.0 | 153.5 | 161.7 | 170.2 | 179.3 | 188.8 | 198.8 | 209.4 |
| Increase in gallons per store | 0.0% | 5.9% | 0.0% | 3.8% | 6.3% | 6.2% | 6.1% | 6.0% | 6.0% | 5.9% | 5.8% |
| Margin in cents per gallon | 7.5 | 7.0 | 7.0 | 7.0 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 |

**7. *General and Administrative Expense.*** G&A expenses are reduced by approximately 20% from 1986 to 1989, for approximately $50,000,000 in annual savings beginning in 1989.

**8. *Working Capital.*** Inventories are cut by $2,000 per store in 1988 for 4,897 corporate stores, or approximately $10,000,000. Thereafter, inventories increase based on number of stores and inflation.

**9. *Capital Expenditures***

| Year | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital expenditures (dollars in millions) | 366.1 | 81.8 | 57.0 | 131.8 | 44.8 | 67.2 | 152.1 | 133.6 | 149.5 | 156.3 | 163.3 |

**(a) New Stores** — In 1990, new stores cost $800,000 without gasoline and $1,000,000 with gasoline. These costs are assumed to increase with inflation thereafter. Half of all new stores are assumed to have gasoline equipment.

**(b) Lease/Buy** — From 1988-92 virtually all new stores are leased. Beginning in 1993, half of all new stores are owned and half are leased. Approximately 90% of the equipment for these stores is purchased by Southland from 1988-1997.

**(c) Maintenance** — Maintenance expenditures are $41,500,000 in 1988, or approximately $6,000 per store, generally increasing with inflation thereafter.

**(d) Remodeling and New Programs for Existing Stores** — Expenditures for these programs estimated at $175,000,000 over the course of the forecast.

## MANAGEMENT'S REVIEW OF OPERATING RESULTS — FIVE MONTHS ENDED DECEMBER 31, 1987 AND SEVEN MONTHS ENDED JULY 31, 1987.

### *Five Months Ended December 31, 1987*

Net sales were $3.2 billion. Convenience store sales accounted for $3.0 billion or 94.7% of the Company's total sales. Merchandise sales in convenience stores were $2.4 billion while gasoline sales were $0.6 billion. Real growth after inflation in stores open more than one year (including the 1,000 convenience stores scheduled for future divestiture) was a negative 0.58% during this period, despite improved profitability.

The Company's consolidated gross margin was 23.3%. Merchandise gross margins improved compared to the five months of 1986 due primarily to the stores' more targeted merchandising efforts and the benefits derived from the Company's previous investment in new marketing programs. Gross profit per gallon of gasoline during the last five months of 1987 was 10.7 cents. The unusually strong gasoline profits reflect industry conditions and certain strategic adjustments that focus on further improving profitability from the Company's gasoline marketing operations.

The ratio of expenses (selling, general and administrative, interest, contributions to profit sharing plan) to sales was 31.1%. The large increase in this ratio is primarily attributed to significantly higher interest costs which includes amortization of deferred debt issuance costs associated with the Company's new debt levels. Certain other nonrecurring expenses including the cost to redeem all outstanding stock options, fees related to the financing of the tender offer and the loss associated with the unhedging of currency exchange agreements resulting from the monetization of the Japanese yen royalties contributed to the increase of this ratio.

The Company's net earnings for the period include $14.2 million from its 50% equity in Citgo's net earnings.

A tax benefit of $71.8 million was recorded by the Company during the last five months reflecting its loss position resulting from higher interest expense and other costs related to the LBO.

### *Seven Months Ended July 31, 1987*

Net sales for the period were $4.9 billion. Convenience store sales accounted for $4.6 billion or 95.2% of total sales. Merchandise sales in convenience stores were $3.6 billion while gasoline sales were $1.0 billion. Real growth after inflation in stores open more than one year was 2.26%.

The Company's consolidated gross margin was 20.8%. Merchandise gross margins declined slightly compared to the seven months of 1986 primarily due to the stores' continued competitive pricing strategy in certain markets. Gross profit per gallon of gasoline was 7.5 cents. The ratio of expenses (selling, general and administrative, interest, contributions to profit sharing plan) to sales was 20.6%.

Other income during the period was $33.9 million; primarily consisting of interest income, gains from the sale of assets no longer used in the business and area license royalties.

The Company's net earnings for the period include $39.1 million from its 50% equity in Citgo's net earnings. In addition, during the early part of 1987 the remaining portion of the deferred capital gain of $23.3 million from the sale of a half-interest in Citgo to a subsidiary of Petroleos de Venezuela, S.A. (PDVSA) was recognized. This amount would have been repayable to PDVSA if market prices of petroleum products had not increased sufficiently. Also included in the Company's net earnings for the period is $15.2 million representing the net earnings from the business units to be divested.

Income tax expense for the period was $42.9 million (including the amount allocated to the units to be divested) reflecting the Company's expected overall effective tax rate for the period of 32.2%.

## THE SOUTHLAND CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

**(Dollars in thousands, except per-share data)**

| | Successor | Predecessor | | |
|---|---|---|---|---|
| | Five months ended December 31, | Seven months ended July 31, | Year ended December 31 | |
| | 1987 | 1987 | 1986 | 1985 |
| REVENUES: | | | | |
| Net sales | $3,211,018 | $4,865,436 | $7,782,664 | $7,856,663 |
| Other income | 14,616 | 33,938 | 40,312 | 43,514 |
| | 3,225,634 | 4,899,374 | 7,822,976 | 7,900,177 |
| COST OF SALES AND EXPENSES: | | | | |
| Cost of goods sold (including $458,179, $632,082, $983,609 and $1,566,691 from related parties) | 2,463,896 | 3,853,040 | 6,072,019 | 6,254,158 |
| Selling, general and administrative expenses | 827,006 | 946,491 | 1,531,931 | 1,423,611 |
| Interest expense (including $1,779, $1,658, $3,683 and $4,080 to related parties) | 163,515 | 45,081 | 57,291 | 56,529 |
| Contributions to Employees' Savings and Profit Sharing Plan | 6,926 | 10,844 | 21,406 | 27,722 |
| | 3,461,343 | 4,855,456 | 7,682,647 | 7,762,020 |
| | (235,709) | 43,918 | 140,329 | 138,157 |
| GAIN FROM SALE OF HALF-INTEREST IN CITGO | — | 23,254 | 114,732 | — |
| EARNINGS (LOSS) BEFORE INCOME TAXES, EQUITY IN EARNINGS OF CITGO AND BUSINESS UNITS TO BE DIVESTED | (235,709) | 67,172 | 255,061 | 138,157 |
| INCOME TAXES (BENEFIT) | (71,785) | 31,410 | 24,491 | 54,321 |
| EQUITY IN EARNINGS (LOSS) OF CITGO (pretax in 1986 and 1985) | 14,177 | 39,131 | (51,993) | 112,675 |
| EARNINGS (LOSS) BEFORE BUSINESS UNITS TO BE DIVESTED | (149,747) | 74,893 | 178,577 | 196,511 |
| EARNINGS OF BUSINESS UNITS TO BE DIVESTED (net of income taxes of $11,456, $21,009 and $15,395) | — | 15,185 | 21,868 | 16,024 |
| NET EARNINGS (LOSS) | (149,747) | 90,078 | 200,445 | 212,535 |
| ACCRETION TO REDEMPTION VALUE OF REDEEMABLE PREFERRED STOCK | (263) | — | — | — |
| PREFERRED STOCK DIVIDENDS: | | | | |
| Series A | (88) | (5,822) | (10,000) | (3,428) |
| Redeemable | (580) | — | — | — |
| NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES | $ (150,678) | $ 84,256 | $ 190,445 | $ 209,107 |
| EARNINGS (LOSS) PER COMMON SHARE: | | | | |
| Before business units to be divested: | | | | |
| Primary | $(.75) | $1.42 | $3.51 | $4.07 |
| Fully diluted | $(.75) | $1.42 | $3.49 | $4.04 |
| Net earnings (loss) applicable to common shares: | | | | |
| Primary | $(.75) | $1.74 | $3.96 | $4.41 |
| Fully diluted | $(.75) | $1.74 | $3.91 | $4.37 |

See notes to consolidated financial statements.

## HISTORICAL SUMMARY: SUNSHINE JR. STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1988

Inventory Accounting: LIFO

| | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | | |
| | 12/31/70 | 12/31/74 | 12/31/79 | 12/30/82 | 12/29/83 | 12/27/84 | 12/26/85 | 12/26/86 | 12/31/87 |
| **SUNSHINE JR. STORES, INC.** | | | | | | | | | |
| Number of Stores | 98 | 215 | 336 | 358 | 345 | 336 | 340 | 330 | 316 |
| Store Growth in Year | 22 | 36 | 20 | 4 | -13 | -9 | 4 | -10 | -14 |
| Store Days | 31,766 | 71,923 | 118,980 | 129,584 | 127,946 | 123,942 | 123,032 | 121,950 | 119,826 |
| Sales per Day | $370 | $507* | $502 | $570 | $558 | $651 | $648 | $661 | $699 |
| Sales Growth $DPD | $18 | $70 | $32 | $8 | -$12 | $93 | -$3 | $13 | $38 |
| Gross Profit Percentage | | | | | | 20.7% | 21.4% | 25.1% | 22.3% |
| Total Gross Profit Dollars | | | | | | $32,941,700 | $34,918,729 | $38,237,019 | $36,670,120 |
| Gross Profit Dollars Per Store Per Day | | | | | | $257 | $282 | $314 | $306 |
| % Increase in Gross Profit Per Store Per Day | | | | | | | 9.4% | 11.3% | -2.5% |
| Operating Cost Per Store Per Day | | | | | | $237 | $254 | $272 | $292 |
| % Increase in Operating Cost Per Day | | | | | | | 7.0% | 7.3% | 7.4% |
| Pretax Profit $DPD | $19.35 | $30.78 | $31.03 | $18.14 | $20.43 | $28.16 | $32.72 | $41.57 | $13.88 |
| After Tax Profit | $10.12 | $16.31 | $16.86 | $10.92 | $11.36 | $16.66 | $18.35 | $21.73 | $8.00 |
| Store Closures | | | 8 | 17 | 17 | 16 | 7 | 27 | 31 |
| Gasoline Units | | 51 | 260 | 322 | 321 | 319 | 322 | 317 | 306 |
| $DPD Ranking | 2/10 | 3/13 | 9/13 | 9/12 | 9/11 | 6/9 | 4/8 | 4/8 | 5/8 |

*Includes gasoline sales.

## BASIS FOR PROFIT PER DAY DETERMINATION

Operated 316 convenience stores on December 31, 1987 in five southeastern states. The year was a 53 week reporting period.

1. The annual report states that convenience food store sales were $83,700,000. We have computed that convenience food store sales were 46.9% of total company sales. Gasoline sold from the convenience stores was 45.3% of total sales and the four supermarkets had 7.8% of total sales.
2. Store Days:
   Store days of stores open all year: 316 × 371 = 117,236
   Store days for net closed stores (half year only): 14 × 185 = 2,590
   Total Store Days: 119,826
3. Sales per Store per Day:
   Sales of $83,700,000 divided by 119,826 store days equals average sales of $699 per store per day for the year.
4. Pretax Profit per Store per Day:
   The annual report states that total pretax income was $1,804,680. Convenience store sales were 92.2% of total sales. We have allocated pretax profit on the same basis. Convenience store pretax profits were thus $1,663,914. This profit has been divided by store days to arrive at a pretax convenience store profit of $13.88 per store per day.
5. After Tax Profit per Store per Day:
   After tax profit was $1,039,323. We have allocated 92.2% of that to the convenience stores or $958,255. This profit has been divided by store days to arrive at an after tax convenience store profit per store per day of $8.00.
6. 198 stores or 63% of the stores are open 24 hours a day. The balance of the stores are open 18 hours per day. The average store operates 21.75 hours per day.
7. The company also operates 4 supermarkets which have average annual sales of $3,486,274.

Comments: The stores operated by this company developed only $14.07 margin dollars per operating hour last year. They made a profit of $.64 per store per hour, so they have costs of only $13.43 per hour. Every year I'm amazed they are still in business. Margin dollars per store per day were down 2.5% for the year and expense dollars per store per day were up 7.4% for the year. No amount of euphemisms in the annual report can cover the thin ice this company skates upon. They should pray for a hard freeze in Florida.

# SUNSHINE JR.

EXCERPT FROM THE ANNUAL REPORT OF SUNSHINE JR., 12.31.87

## PRESIDENT'S REPORT:

*Lana Jane Lewis-Brent*
*President, C.E.O.*

SINCE ITS BEGINNINGS just over 25 years ago, the convenience store industry has experienced remarkable growth. Today, with over 76,000 stores in operation, the industry must be an accurate gauge of consumer trends and must rapidly change to meet new consumer needs. For Sunshine-Jr. Stores, Inc., 1987 was a year of action, analysis, and coping with economic pressure. Our management goal has been to achieve a cohesiveness of purpose that will position us to better meet customer needs through quality service, quality products and quality growth.

Sales for 1987 increased 7.5% from the previous year, rising $12.6 million to a total of $178.4 million. Net income for the year was down 62%, from $2,736,800 in 1986 to $1,039,323 this year. Net income per share was $.61 compared to $1.61 last year. The decrease in net income for the year was primarily the result of a 13% decrease in gasoline gross margin in 1987. The total revenue increase, on the other hand, can be attributed primarily to a 12.1% increase in gasoline sales as well as an increase of 4% in merchandise sales.

Specifically, Jr. Food Store merchandise sales were $83.7 million, up 5% compared to $79.8 million in 1986. Gasoline sales showed an impressive 8.3% increase in the total number of gallons sold, and contributed 49.1% to convenience store revenue.

The total number of gallons of gasoline sold climbed to 90.9 million gallons in 1987 which is an increase of over seven million gallons from 1986. The emphasis in the coming year will be to continue to upgrade installations. We believe that if we continue to improve gasoline customers' satisfaction, that in-store sales will ultimately increase. The Citgo branding pilot program was a successful one and we will add an additional 11 stores to the original 31 stores that were a part of the test program in 1987.

Sunshine Supermarket sales decreased only .9% in 1987 to $13.9 million. The four supermarkets, which are all located in Bay County, Florida, continue to retain a strong market share even though competition has dramatically increased due to the entrance of several large chain supermarkets into the market.

During mid-year, Rick McAllister joined the company as Vice President of Operations with responsibility for convenience store and supermarket operations. He is also responsible for marketing, food service, and human resources. After many years of experience in retail management, marketing and human resources in several large industries in the Southeast, Mr. McAllister brings important motivational, planning and organizational skills to the company.

During the year a sharper emphasis on marketing has resulted in improved promotional activities, and upgraded advertising in all media and in specific target markets throughout our five-state region. Also, the introduction of some new promotions with incentives attached to sales volume has created excitement and competition among store managers.

In 1987 we opened seven new convenience stores and closed 28 unprofitable stores. Many of the closed stores were in secondary locations and most were in rural areas. The new stores are located in prime sites in Florida and Alabama, and will strengthen our marketing base in these high growth areas.

In recognition of the importance of proper site selection, the Real Estate Department, which now reports to my office, was expanded in 1987. We are now in a position to ensure that we have every opportunity to expand into identified areas, to track competition more carefully, to identify stores for relocation, and to develop a total approach for handling the company's real estate development.

Among the significant factors impacting our 160 Florida Jr. Food Stores and Sunshine Supermarkets in 1988 will be the Florida Lottery. Since its kick-off on January 12, 1988, lottery ticket sales have far exceeded expectations. This new entertainment option has brought many new faces into our stores, and predictions are that this influx of new customers will enhance merchandise sales in 1988.

For stockholders, our success in 1987 resulted in the declaration of a $.12-per-share dividend in each quarter of the year. This maintained dividends for the year at the same level as the last four years. The company has paid an unbroken stream of quarterly dividends since it instituted them in August 1974.

In closing, I am reminded of a quotation that reflects an important part of my philosophy in operating this company, "*The secret of success is constancy to purpose.*"

This company was founded with constancy of purpose. Our convenience stores and supermarkets are designed to quickly serve our customers' ever-changing needs. Hard work, alertness, and the ability to attract quality people will ensure our success. I am in our stores on a daily basis, and it is exciting to see how fast they are able to change to keep pace with what our customers want. We also have a management team in place who are dedicated to ensuring that we maintain that important ability to change while we provide the best possible customer service.

Lana Jane Lewis-Brent
February 28, 1988

## SUNSHINE JR.

EXCERPT FROM THE ANNUAL REPORT OF SUNSHINE JR., 12.31.87

# BUSINESS REVIEW:

JR. FOOD STORE sales in 1987 were $83.7 million, up 5% compared to $79.8 million in 1986. Seven new convenience stores were opened during the year and 28 unprofitable stores were closed.

The Operations Division of the company is responsible for 316 convenience stores and four supermarkets in a five-state region. In 1987, under the leadership of newly appointed Vice President, Rick McAllister, the Operations Division was reorganized. The new management team was developed and began implementation of aggressive new plans for marketing, human resource development, and store performance appraisals. Initially, store inventory levels were reduced by over $2 million, and inventory turns were increased. New customer service training began in each district, and aggressive, company-wide advertising, promotion, and special event campaigns were launched.

Rick McAllister, Vice President of Retail Operations.

THE CONVENIENCE STORES were reorganized into four regions which represent the most powerful positioning within the marketplace. These new regional headquarters in Panama City, FL, Tallahassee, FL, Mobile, AL, and Montgomery, AL, are at the center of economic growth in each state, and will be able to support the stores in the five-state area. New regional directors were promoted from the ranks of company management, and new offices were established within each region.

Every region has set ambitious, but achievable, goals for sales and management of Jr. operations.

Additionally, the Personnel Department shifted into the Operations group and was renamed Human Resources. The Human Resource Department has begun a revised in-store training program and plans additional sessions which address the issues of turnover, training needs, and strengthening employee commitment. Sunshine-Jr. has also begun to aggressively expand recruitment efforts to attract high quality employees at all levels of the company.

INCREASED MARKETING emphasis was placed in every area of company operations during the latter half of 1987 by Annette Trujillo, the new Director of Marketing and Merchandising.

The company's wholesale distribution is now handled by an outside national distribution company, one result of which is improved tracking of our stores' product mix. In 1987, the Marketing Department, in conjunction with the company's regional directors, set new parameters for inventory levels in each store.

Measurable objectives for each of the frequently planned promotions include employee and customer incentives, professional advertising campaigns, and an increased emphasis on creating an environment in which store employees want to aggressively sell merchandise.

Recognizing that today's convenience store customer has an ever-changing set of needs, the Marketing Department plans a more formal assessment of those needs in 1988. Using a variety of research, plans are to test promotions aimed at specific target markets. Additionally, plans are underway to introduce a new computerized shelf space management program into many stores in 1988.

A uniform movie rental program was achieved this year when the new CVS video system was installed in most Jr. Stores and Supermarkets. This additional service was well re-

The Jr. Deli at Baytown, Marriott's Bay Point Resort, Panama City, Florida. A new concept in resort convenience.

The neon sign welcomes customers to the Jr. Deli.

ceived throughout the company and through various promotions, has substantially increased the customer card member base, which is the key to sales.

Finally, the Marketing Department is committed to assisting store managers improve their selling skills in 1988. Adopting the Operations Division major focus on "our people", Sunshine-Jr.'s Marketing Department will continue to provide customer-driven promotions that offer Sales Associates the opportunity to improve selling skills.

To that end, several changes were made in 1987. First, the title of Clerk was changed to Sales Associate, reflecting that employees are much more than the name "clerk" implies. They must operate electronic cash registers, correctly complete an array of paperwork, measure and report gasoline inventories, price changes and the competitive climate. They must be competent to electronically rent video movies, to charge groceries and gasoline on a variety of credit cards, and to maintain the store's physical plant. In Florida, they are now asked to sell Lottery tickets. And finally, they are asked to do these tasks while maintaining the excitement and vibrancy in their selling skills that keep customers coming back. Additionally, the term "shift" was renamed "Sales Period." This better reflects the company's emphasis on sales. Also, the term "store condition" was changed to "selling condition" to further underline emphasis on selling. Certainly, name changes do not change people, but these changes represent the first step that could be taken to signal management's commitment to employees.

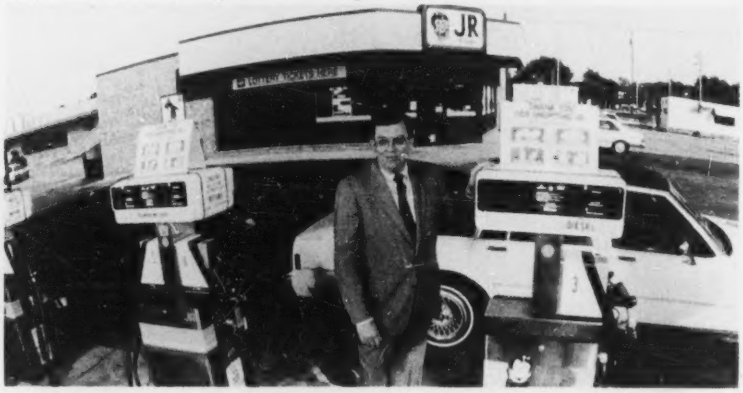
IN 1988, the Operations group will emphasize employees. There will be improvement in the quality and frequency of training. Every effort will be made to improve the working environment. New programs such as The Statistical Store Control program (SSC) are in place to improve communication of data. This program, which is a series of graphs and charts, gives store managers a ready analysis of progress in all key areas of sales and management. Additionally, the installation of hand-held terminals will improve the ability to communicate and to quickly respond to customer needs. Company-wide advertising and promotions are planned for 1988 that will attract more customers. Finally, and more importantly, employees have been asked to take increased responsibility for their stores, and to treat their stores as if they were their own small business. This spirit of ownership and pride is what will ultimately set Sunshine-Jr. apart from the competition.

THE FOUR SUPERMARKETS, which are all located in Bay County, Florida, are under the direction of Wayne Milligan. Although several large supermarket chains opened in this market in 1987, Sunshine Supermarkets, which are conventional in size, continue to make strides in improving store management, and in keeping the customer base consistent. Known for quality produce and meats, as well as friendly service, the Sunshine Supermarkets have developed a loyal customer base in Bay County. Additionally, all four supermarkets received a new graphics package and were freshly painted in 1987. The CVS video program was also added to each supermarket and has received favorable acceptance from customers.

ALTHOUGH FOOD SERVICE has been a part of Sunshine-Jr.'s convenience stores for over a decade, today's food service presents a new array of challenges and opportunities to better serve customers. In 1987 the Food Service Department was expanded so that consistent training could be developed and administered to all store personnel who prepare and sell food. Additionally, the food service team works closely with other operations departments such as Marketing and Human Resources to assist store personnel in developing better suggestive selling techniques as well as skills necessary to operate a food service operation.

"PEOPLE ARE THE COMMON DENOMINATOR OF SUCCESS." Sunshine-Jr. has a long tradition of attracting and retaining loyal, quality employees. The future of the company depends on the quality, skills and commitment of employees. Among the most important goals adopted by the Operations team is a commitment to employees, to the job they are asked to do, and to the image they have of their work and of their workplace.

*Jim Burkhalter, Vice President of Gasoline Marketing*



## HISTORICAL SUMMARY: MUNFORD, INC.

Data Taken from the Annual Report
for the Year Ended December 31, 1987

Inventory Accounting: FIFO

| | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | YEAR ENDED | | | | |
| | 1/2/71 | 1/2/75 | 1/3/80 | 12/30/82 | 12/29/84 | 12/29/85 | 1/3/86 | 1/1/87 | 12/31/87 |
| **MUNFORD, INC.<br>Atlanta, Georgia** | | | | | | | | | |
| Number of Stores | 928 | 1348 | 1184 | 959 | 916 | 835 | 837 | 792 | 705 |
| Store Growth in Year | | 102 | -27 | -28 | -43 | -81 | 2 | -45 | -87 |
| Store Days | 338,720 | 472,108 | 439,264 | 354,172 | 341,250 | 324,770 | 304,304 | 298,298 | 272,454 |
| Sales per Day | $307 | $423 | $586 | $829 | $845 | $931 | $1,101 | $962 | $976 |
| Sales Growth $DPD | | $19 | $57 | $91 | $16 | $86 | $79 | -$48 | $14 |
| Pretax Profit $DPD | $5.86 | $12.01 | $2.22 | $15.20 | $19.50 | $24.71 | $23.15 | $27.05 | -$9.39 |
| After Tax Profit $DPD | $2.90 | $6.68 | $1.34 | $10.38 | $13.14 | $17.24 | $17.48 | $14.88 | -$7.77 |
| Store Closures | | | -119 | Not Given | 43 | — | 24 | — | 87 |
| Gasoline Units | | 266 | 555 | 481 | 469 | 440 | 459 | 448 | 407 |
| $DPD Ranking | 8/10 | 10/13 | 13/13 | 10/12 | 10/11 | 7/9 | 6/8 | 5/8 | 7/8 |

## BASIS FOR PROFIT PER DAY DETERMINATION

Operated 705 Majik stores in fourteen states on December 31, 1987. The company also operates other divisions with sales of $148,591,000. The company is trying to liquidate its holdings.

1. Sales:
   The annual report states that Majik Market sales were $309,604,000. The 10K states that gasoline sales from 270 stores are included in Majik Market sales. The amount of gasoline sales or gasoline gallons sold has not been given for several years. Based on earlier information, we assume that the company operates very low gallonage gasoline units. We estimate the average daily gallonage to be only 500 gallons per day. We thus estimate that these 270 gasoline units pump 182,000 gallons annually or a total of 49,140,000 gallons. At Sunshine Jr's average retail price for the year of 88.8 cents per gallon, this amounts to $43,636,320 in gasoline sales. We have deducted this $43,636,320 from convenience store sales as shown in the annual report. Our estimated convenience store in-store sales are $265,967,680. When these sales are divided by store days of 272,454, you arrive at average store merchandise sales of $976 per store per day. This is the best estimate of sales we can provide based on the small amount of information now given in the annual report and the 10K.
2. Store Days:
   Store days of stores open all year: 705 × 364 = 256,620
   Store days for closed stores (half year only): 87 × 182 = 15,834
   Total Store Days: 272,454
3. Pretax Loss:
   The annual report states that the operating earnings from convenience food stores was $711,000. This was before net interest expense for the company of $6,538,000. Though 68% of company sales are from the convenience stores, we have taken the charitable approach and have deducted 50% of the interest expense in computing Munford's pretax loss from convenience stores. When you deduct this $3,269,000 from the convenience store operating profit, you obtain a convenience store loss of $2,558,000. This loss divided by 272,454 store days creates a pretax convenience store loss of $9.39 per store per day.
4. After Tax Loss:
   Corporately Munford lost $3,114,000 for the year. We have applied the 68% convenience Store Sales to this figure and ascribed 68% of the after tax loss to convenience stores. The after tax loss is thus $2,117,520. Divided by store days we have an after tax loss per store per day of $7.77.
5. Insufficient information is available to compute gross profit per store per day. A reasonable guess might be as follows:
   Average store sales $976 @ 35% store margin would create $342 margin dollars. If you add gasoline margin of $50.00 (500 gallons times 10 cents a gallon) you would have total margin dollars of $392 per store per day.

Comments: 1988 may be the last operating year for this company. The company which was founded in 1909 has had the poorest record of the larger convenience store chains since coming under the control of Dillard Munford several years ago. It is amazing how the distinguished appearing Board of Directors has stayed around while this once large company has been run into the ground. I have had some very negative things to say about Munford, Inc. over the past 15 years, but apparently, none of them have matched the reality of the situation.

# MUNFORD

## EXCERPT FROM THE ANNUAL REPORT OF MUNFORD, 12.31.87

*Letter to Shareholders*

1987 was not a good year for Munford, Inc. but it is believed that the problems experienced in 1987 are correctable and we have taken a number of actions to address these problems.

Profits declined from $1,641,000 or $.42 per share in 1986 to a loss of $3,114,000 or $.81 per share. Included in the 1987 earnings is the cumulative effect of an accounting change for taxes at United Refrigerated Services, Inc. The profit decline was primarily the result of declining operating profits in the convenience store segment of the Company. This decrease was partially attributable to lower gasoline margins in early 1987. However, the major problem of 1987 resulted from management decisions made early in the year by personnel who have since left the Company. These decisions involved not meeting the competitive pricing environment and losing market share. Customers have been attracted back to MAJIK MARKETS through aggressive pricing and promotion, but at the expense of a decrease in profit margins. It is expected that this segment operation can be improved substantially in 1988.

There were also losses in the Company's rattan factory in the Philippines and, while there was an improvement in WORLD BAZAAR operations in 1987 over 1986, this division still was not profitable due to a continuation of the repositioning program begun in 1986. The conversion of this operation to specialty retailing included major inventory liquidations, stores refurbishing and some store closings. The LEEWARDS division of the Company had an increase in both sales and profits and shows great promise in a continually expanding business in a relatively infant industry.

The WORLD BAZAAR, which had new management in 1987, is following a previously laid out plan of restructuring the division to become specialty retailers of quality imported products. This program has brought on a change of direction in the merchandising policies of the division and changes in physical store layouts to conform to the new mode of operations. Further implementation of store and merchandise changes will continue in 1988.

In mid-1987 the Company agreed to have an investment banking firm evaluate the various divisions of the Company and the Company as a whole to be sure that stockholder value was realized. This evaluation resulted in an agreement to sell the entire company to the Deutschman investment group, but after six weeks of negotiations and investigation it was mutually agreed that this was not in the best interests of either Deutschman or the stockholders of Munford, Inc. and the tentative agreement was abandoned. In the meantime, the Company has reached an agreement in principle to sell its interest in United Refrigerated Services, Inc. for approximately $45 million. This asset is held as an investment and the Company has no operating responsibilities. An agreement has also been reached to sell LEEWARDS for approximately $31.5 million. LEEWARDS was purchased by the Company in late 1985 for $20.2 million.

Munford, Inc. continues to explore the sale of the whole company. There continues to be interest in MAJIK MARKETS and WORLD BAZAAR and corporate and division management have spent hours and days talking to prospective purchasers and continue to evaluate all alternatives to maximize shareholder value. There is no question but that the time consumed in these explorations of buyer interest has affected the operation of the entire company during the latter half of the year.

The operating problems of the Company in 1987 are correctable and improvement is expected in late 1988.

March 28, 1988

Dillard Munford
*Chairman of the Board*
*and Chief Executive Officer*

# HISTORICAL SUMMARY: SILCORP LIMITED
## CONVERTED TO U.S. DOLLARS

Data Taken from the Annual Report
and 10 K for the Year Ended December 27, 1987

| | | INVENTORY ACCOUNTING: FIFO | | |
|---|---|---|---|---|
| | 15TH SURVEY 12/30/84 | 16TH SURVEY 12/29/85 | 17TH SURVEY 12/28/86 | 18TH SURVEY 12/27/87 |
| **SILCORP LIMITED**<br>**Mississauga, Ontario** | | | | |
| Number of Stores | 922 | 983 | 1053 | 1049 |
| Net Store Growth in Year | | 61 | 70 | -4 |
| Store Operating Days | | 346,710 | 384,434 | 382,564 |
| Sales Per Day Per Store | | $978 | $1,041 | $1,154 |
| Sales Growth $DPD | | — | $63 | $113 |
| Gross Profit Percentage on Total Sales | 29.17% | 28.97% | 29.51% | 30.47% |
| Total Gross Profit Dollars Per Store Per Day | | $283 | $307 | $352 |
| % Increase in Gross Profit Per Store Per Day | | — | 8.5% | 14.7% |
| Operating Cost Per Store Per Day | | $275 | $294 | $336 |
| % Increase in Operating Cost Per Day | | | 6.9% | 14.3% |
| Profit Per Store Day Pre Tax ($US) | | $8.40 | $12.51 | $16.06 |
| After Tax Profit Per Store Per Day ($US) | | $4.80 | $4.33 | $11.65 |
| Store Closures | | | | 48 |
| Gasoline Units | | 205 | 223 | 234 |
| $DPD Ranking | | | 6/8 | 3/8 |

### BASIS FOR PROFIT PER DAY DETERMINATION

Silicorp Limited operated 1,049 convenience stores across Canada and in Michigan, Virginia, Tennessee, and North Carolina in the United States. They also operate 198 Baskin Robbins stores in Canada. The sales for the Baskin Robbins units have been excluded. To the extent that Baskin Robbins is profitable, the Pretax and After tax figures are overstated.

Revenues and Expenses have been converted to U.S. dollars for comparability with the other companies in the report. We have used the conversion figure as shown in the annual report. $1.00 CDN = U.S. $0.754.

1. The annual report states that convenience store merchandise sales were $441,804.000.
2. Store Days:
   Store days for stores open all year: 1,049 × 364 = 381,836
   Store days for closed stores (half year only): 4 × 182 = 728
   Total Store Days: 382,564
3. Sales Per Store Per Day:
   Store sales of $441,804,000 divided by store days of 382,564 equals average sales of $1,154 per store per day.
4. Pretax Profit:
   Total Silcorp pretax profit of $6,143,592 divided by 382,564 store days equals a pretax profit of $16.06 per store per day. Any profit or loss from the 198 Baskin Robbins stores would either add to or reduce this number.
5. After Tax Profit:
   Total Silcorp after tax profit of $4,455,386 divided by store days of 382,564 equals an after tax profit of $11.65. The caution on Baskin Robbins effect is true of this number also.

Comments: The annual report isn't quite so boastful this year. For a company with marginal stores and marginal results, they really take themselves seriously. They ought to just tell us they have problems and they are trying to do something about them. Skip the "pro-active" verbiage.

# SILCORP

## EXCERPT FROM THE ANNUAL REPORT OF SILCORP, 12.31.87

## To Our Shareholders

> ❝Silcorp Limited is a successful integration of five individual and decentralized business units, working under the same philosophy of motivated, well-trained people serving people needs in a friendly, appealing and efficient manner.❞

Fiscal 1987 was a rewarding year for Silcorp with a strong increase in earnings and shareholders' equity. The business environment in our North American markets dictated a strategy of consolidation with increased emphasis on productivity. Real progress was achieved in 1987, positioning the Corporation for strong growth through 1988.

Consolidated operating income increased 13.7% to $16,544,000, the major portion generated by the Canadian divisions. Consolidated net earnings, before extraordinary item, of $4,254,000 increased by 84.6% from $2,304,000 in 1986. Basic net earnings per share, before extraordinary, increased to $1.53 from $0.83.

Through cash management, sufficient interest income was generated in the United States to absorb both current sector operating losses there and the cumulative losses carried forward from prior years. Extraordinary earnings of $1,655,000 arose from the recovery of the portion of 1987 income tax expense applicable to United States operations resulting from the utilization of cumulative losses carried forward. Consolidated net earnings of $5,909,000, including extraordinary item, produced basic net earnings per share to shareholders of $2.12 or fully diluted $1.44.

Consolidated sales for the year ended December 27, 1987, were $672,123,000, up 3.2% over 1986 sales of $651,534,000. This is much lower than projected in our 1986 Annual Report. It arises from the changing business environment through 1987 and our strategic response to those conditions.

During 1987, our convenience store divisions placed a major emphasis on growth in the service sales sector – encompassing automatic teller machines, video movie rentals, the sale of lottery tickets, money orders, stamps and video games. By accounting convention we have always reported sales in this sector, apart from video movie rentals, as the amount of margin or commission earned, not by the total retail value of the transaction. This approach avoids distorting the gross margins earned from total company sales. However, in a year where great progress has been made in increasing the number of our transactions, it masks the real improvement in sales.

Gasoline sales, where inventories are owned by others, are reported on a commission basis. This is true primarily in Canada where operations generated a 16.3% increase in litreage sold in 1987. Thus, although correctly reporting gross margins and net earnings, it again masks sales growth. These accounting conventions are more comprehensively outlined within the financial section of this Report.

The year was characterized by volatile petroleum markets with a major drop in world-wide crude oil prices in the spring. This reduced sales dollars and gas margins dramatically affecting our American operations where the vast bulk of product is sold under our own label. The trend stabilized through the summer and turned around in the fall when larger gross margins became available.

It was a year when the predicted reduction in unemployment levels occurred in most of our suburban markets both in Canada and the United States. This increased the rate of labour turnover, particularly on the American side, and resulted in inventory control problems. As expense control

*Eric F. Findlay*

*Robert S. Maich*

became more challenging, our management focussed on the development of new programs to more effectively recruit, train and retrain store staff.

Within this Report, we point to a few individual contributors to our organization, people whose efforts typify our efficient, congenial operations.

Silcorp Limited is a successful integration of five individual and decentralized business units, working under the same philosophy of motivated, well-trained people serving people needs in a friendly, appealing and efficient manner. Within the network, franchised outlets, contracted dealer operations and employee operated stores give the Company flexibility to operate in the most effective mode for specific markets.

We remain extremely proud of the many dedicated, competent people operating within the various businesses of Silcorp Limited.

To compliment their efforts, we continue to upgrade our facilities. During 1987, 147 stores were totally renovated, 53 new prime site stores were opened while 48 were closed.

During 1987, we decided to temporarily curtail new store expansion in the United States and concentrate on effectively managing our store base in the mid-Atlantic states and Michigan. Real estate markets in Canada became extremely competitive. Occupancy rates increased dramatically. We became even more selective in our store network growth. Construction and availability of sites were delayed to the latter part of the year.

We ended 1987 with 1,247 stores in our total network, a net increase of only 5. It comprised 779 Mac's Convenience Stores, 83 Mike's Marts and 198 Baskin-Robbins Ice Cream Stores in Canada; 130 Hop-In Food Stores in Virginia, North Carolina and Tennessee; and 57 Hop-In Food Stores in Michigan. During the year, the real estate function within Mac's was reorganized and revitalized. Strength was also added to that function within Mike's Marts to encourage increased expansion activity.

We constantly seek acquisitions which strengthen our divisions and lead to market dominance. Although no acquisitions were completed during 1987, our people resources at Silcorp Head Office were further reinforced to allow us to move quickly and effectively in this important strategic area in 1988.

Two new Silcorp positions were created with the appointments of R. Gary Miller as Vice President, Financial Administration and Management Information, in February and Vlad E. Romanchych as Vice President, Business Development, in July. This allowed a reorganization of responsibilities and provided for a knowledgeable group constantly searching our large geographic base for business opportunities. We anticipate considerable activity during fiscal 1988.

Business, including the retail sector, is moving to development on a more global scale. One must recognize the strength that a successful international operation provides for the long-term development of the Corporation. We are determined to make a success of our entry into the United States. But we are not inflexible about the locations of our current focus, if we determine that the present configuration cannot make major contributions to our shareholders.

Minimal financial advances were made during 1987 in our combined American business segment. Yet, significant progress was accomplished. We achieved a 10.3% combined sales gain in the United States on a stable store count and reduced capital expenditures in combined operations. The volatile petroleum market and tightened labour market nullified many of our efforts in 1987.

# SILCORP

## EXCERPT FROM THE ANNUAL REPORT OF SILCORP, 12.31.87

All Canadian operations achieved increased profitability despite difficult and competitive conditions. Mac's Convenience Stores' successes in Ontario were partially offset by competitive markets in Alberta and British Columbia with their more difficult economic climates. Nevertheless, record profitability was achieved by the Mac's team.

Mike's Mart, continued its record of accomplishment with further penetration of its Central and Northern Ontario markets. They have been tightening their operations and building a dedicated people base from which we anticipate further significant growth in 1988.

Baskin-Robbins further refined its market objectives and offerings during 1987 and expanded into the rapidly developing frozen yogurt market. Its real estate focus has been revised to accommodate this change in marketing strategy.

The year saw a major change in the composition of our Board of Directors with the retirement of three long-term stalwarts: J. Allyn Taylor, O.C. after 28 years of Board service, Grant M. Carlyle after 21 years and William A. Stewart after 9 years. Their contributions were substantial and of great importance to this Corporation in redefining its business structure and objectives during a period of dramatic change. Their counsel will be greatly missed.

We are delighted with the strength and experience of those elected to replace them. In electing...

Thomas N. Davidson – Chairman,
P.C.L. Industries Limited

Robert W. Martin – President and C.E.O.,
The Consumers Gas Company Limited

Craig F. Findlay – President,
Baskin-Robbins Ice Cream Stores

you have provided the Board with three well-informed people of recognized stature within the community. You have provided also for an age balance within the Board.

This restructuring underlines a commitment to providing ongoing continuity and stability within both the Board and management team, while giving strong independent leadership on behalf of our shareholders.

We have made a meaningful stride this year towards our primary strategic goal to achieve a 15% return on beginning shareholders' equity per annum by fiscal 1989. A return of 9.4% this year, while still unacceptable, should indicate a determination by management to achieve this objective.

We trust that this Annual Report reflects the real pride we have in our dedicated team of people that comprise the Silcorp organization. We look forward to the challenges and opportunities of 1988 with confidence.

Eric F Findlay

Eric F. Findlay
Chairman of the Board

Robert S. Maich

Robert S. Maich
President

# HISTORICAL SUMMARY: DAIRY MART CONVENIENCE STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended January 30, 1988

Inventory Accounting: LIFO

| | 10TH SURVEY | 11TH SURVEY | 12TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | YEAR ENDED | | | |
| | 1/31/80* | 1/31/81* | 1/31/82* | 1/31/83 | 1/31/84 | 1/31/85 | 1/31/86 | 1/31/87 | 1/30/88 |
| **DAIRY MART CONVENIENCE STORES, INC.**<br>**Enfield, Connecticut** | | | | | | | | | |
| Number of Stores | 79 | 94 | 140 | 143 | 176 | 200 | 933 | 1,207 | 1,188 |
| Store Growth in Year | 6 | 15 | 46 | 3 | 33 | 24 | 733 | 274 | -19 |
| Store Days | 29,927 | 31,659 | 42,682 | 51,646 | 58,201 | 68,808 | 170,750 | 369,863 | 435,890 |
| Sales per Day | $1,057* | $1,045 | $934 | $1,009 | $1,194 | $1,147 | $1,580 | $1,148 | — |
| Sales Growth $DPD | — | — | -$111 | $[illegible] | $185 | -$47 | $433 | — | — |
| Gross Profit Percentage | | | | | | 24.2% | 29.8% | 28.8% | 27.3% |
| Total Gross Profit Dollars | | | | | | $17,588,727 | $76,813,383 | $114,886,350 | $144,706,170 |
| Gross Profit Dollars Per Store Per Day | | | | | | $302 | $450 | $311 | $332 |
| % Increase in Gross Profit Per Store Per Day | | | | | | — | — | 2.78% | 6.75% |
| Operating Cost Per Store Per Day | | | | | | $278 | $429 | $322 | $317 |
| % Increase in Operating Cost Per Day | | | | | | — | — | 15.6% | -2% |
| Pretax Profit $DPD | $2.35 | $10.93 | $.48 | $11.27 | $31.61 | $23.98 | $21.34 | -$10.95 | $15.30 |
| After Tax Profit $DPD | $1.86 | $2.30 | $.41 | $8.50 | $17.55 | $18.78 | $12.98 | -$9.51 | $9.22 |
| Store Closures | 2 | 2 | 23 | 11 | 10 | 7 | 46 | 45 | 41 |
| Gasoline Units | | | | 28 | 28 | 35 | 137 | 415 | 438 |
| $DPD Ranking | | | | 11/12 | 7/11 | 8/9 | 7/8 | 7/8 | 4/8 |

## BASIS FOR PROFIT PER DAY DETERMINATION

Dairy Mart operated 1,188 convenience stores in 11 states on January 30, 1988. 400 of these stores were franchised to independent franchisees. 50% of the stores are in Ohio and 280 of the stores operate under the Convenient Foor Mart name.

1. The annual report does not give sufficient information to clearly determine convenience store sales. It lists both "Net Sales" and "Revenues". It states that Net Sales for the year were $723,121,000. It also states that gasoline revenues were $159,549,906. The net figure is $563,571,094.
2. Store Days:
   Store days of stores open all year: 1,188 × 364 = 432,432
   Store days of closed stores (half year only): 19 × 364 = 3,458
   Total Store Days: 435,890
3. Sales per Store per Day:
   I don't have much belief in these store sales figures and am not going to use them in the report. If you divide the sales and revenues as computed in #1 above, $563,571,094 by store days of 435,890 you develop average daily sales of $1,293 per store per day. These average daily sales are obviously overstated. The annual report does state that average store sales volume increased by 1.3%.
   I'm not confident that previous years sales computations are correct.
4. Pretax Profit:
   Pretax profit of $6,671,000 divided by 435,890 store days results in a pretax profit of $15.30 per store per day.
5. After Tax Profit:
   After tax profit of $4,023,000 divided by 435,890 store days results in an after tax profit of $9.22 per store per day.
6. *Gasoline not included in above sales figures from February 1, 1980 forward.
7. The annual report states that "Dairy Mart has grown to be one of the major forces in the convenience store industry"?
8. 80% of the inventory now valued at FIFO.

Comments: This company must have kept Conna's annual report writer. The writer is obviously dissembling. The report does not do much to enhance my knowledge or my regard for this company.

# DAIRY MART

EXCERPT FROM THE ANNUAL REPORT OF DAIRY MART, 12.31.87

## *Message to Stockholders:*

***"...I see us beginning to benefit from the hard work of the past few years..."***

It is my pleasure to report to you that our Company has turned the corner and is well on its way to a successful year in fiscal 1989. This past year has been a busy and difficult one, but I'm pleased to say that all Divisions have been profitable, including the Midwest Division, which was the big loser last year. For fiscal year 1988, our sales have increased to $723,000,000 from last year's figure of $483,000,000, an increase of 50%. Our net income was $4,000,000, a turnaround of over $7,500,000 from last year. During this past year we have reached a final settlement with regard to the previously announced $12 million litigation involving gasoline supply contracts. The total cost of the settlement, including legal fees, amounted to approximately $600,000. The Company also absorbed unanticipated insurance claims during the fourth quarter amounting to approximately $500,000. During the past year we have also taken a net loss of $300,000 in our marketable securities.

We continue to train and exchange talent in all Divisions. Among those changes were: John Wynne, returning from Ohio to become Vice President of Operations in New England; John Underwood, former Vice President of Operations in New England, going to Ohio to undertake the position of Vice President of Operations for Region II, 350 stores. Also promoted from New England to Ohio was Jan Hunt, to become Vice President of Human Resources in the Midwest, with Lynn Gately replacing her as Division Manager in New England. Dan Wallace from the Midwest was promoted to the other Division Manager position in New England. Also promoted was Frank Colaccino, formerly Vice President of Real Estate and Gasoline in New England, to become Executive Vice President of CONNA Corporation and President of Convenient Industries of America, CONNA's convenience store operating division in Louisville, Kentucky. Since this part of the CONNA Corporation was only minimally profitable this past year, as compared to our other divisions, we have charged Frank with the responsibility of bringing profits in line with our other divisions. Frank has a background of twelve years with the Company and is very capable of meeting that challenge. His responsibilities in New England have been assigned to Rob Rubin, formerly Director for Real Estate and Gasoline, now promoted to Vice President in the New England Division. Rob has been with the Company for just under two years, but came to the Company with a background in real estate and is excited about his new position. Also promoted was Greg Landry, former Treasurer in New England, to become Vice President and Chief Financial Officer of CONNA Corporation in Louisville, Kentucky. Replacing Greg Landry is Lori Cotter, former Director of Finance in New England, now assuming the position of Assistant Treasurer.

Our Midwest Division has become a great contributor of talent toward the growth of our Company, as we have

## DAIRY MART

### EXCERPT FROM THE ANNUAL REPORT OF DAIRY MART, 12.31.87

already seen. Also promoted from the Midwest was Pat Cascarelli, formerly Director of Human Resources for Region I, to the position of Vice President of Human Resources in the Southeast. We have every confidence that she will work well with the people of the CONNA Corporation and bring our family philosophy to Louisville.

It is the CONNA Corporation that this year is experiencing a great change in management. With the coming of Frank Colaccico there were some people released and others resigned. I think this is altogether understandable because all executives must operate in an atmosphere in which they are comfortable. And so, once again, we have seen the growth of people within our Company, and I am sure that the "Good People" of Dairy Mart can meet the challenge.

During this past year, we have made an extensive study in our computer departments. We engaged the firm of Arthur Andersen to do this study. As a result of this study, we have concluded that we should centralize our computer system in Enfield, Connecticut. This centralizing process is presently underway, and the plan is to combine the Midwest and New England first, and then follow up by bringing in the Southeast. Heading up the centralizing process is Bruce Weir, formerly Vice President of M.I.S. in the Midwest, who has now been promoted to the parent company in the new position of Vice President of M.I.S. Bruce is moving ahead expeditiously to combine the computer activity, not only of the two companies, but of all three Divisions as quickly as possible. This move should ultimately save the Company substantial money.

Since the Company has never felt that it was in its best interest to operate a warehouse, we have since year end, on February 27, finally closed the warehouse in Ohio. To supply the stores in that marketing area, we have engaged the McLane Company of Temple, Texas. They are the largest distributor to convenience stores in the country and have served our New England stores very well for the past year. This related transaction will ultimately leave a profit to the Company which will be booked in the first quarter of fiscal 1989.

This past year the CONNA Corporation has contributed substantially to the increase of our gasoline volume. Remote Services, the gasoline division of CONNA, is headed by Gerry Wagner, and that group has now spearheaded our Company to gasoline sales which total 180 million gallons, and has been a great contributor to profits with average gasoline margins of 8.8 cents per gallon.

One of our great accomplishments this past year was to change the Lawson Company in Ohio to the Dairy Mart Midwest Division. Although the Lawson Company has a great history and background, it had been negatively impacted over the past few years and it was time for a change. We have changed all 700 stores in that marketplace to the new Dairy Mart image – a very cleancut image that you will see in this annual report. A substantial advertising campaign took place during the fourth quarter of this past year to promote this new image, which has been costly to our Company. We have also upgraded the dairy operations and changed the name to Dairy Mart at the facility in Cuyahoga Falls. Additionally, we have leased a new fleet of trucks...80 new trucks delivering dairy products and ice cream throughout the Midwest marketing area under the Dairy Mart name.

The Midwest operation has initiated a test with 10 Amoco stations in the Michigan area. Should this test be successful, we expect to operate many more stores throughout the country for Amoco. Our relationship with British Petroleum (BP) in three European countries and Australia continues through the CONNA Corporation. Some of our "Good People" are stationed in those countries to ensure the success of these operations.

As you can see, fiscal year 1988 has been an exciting one, a year of change, a year of challenge, a year of "Good People" working together to make a turnaround situation take place. And so now, as we enter fiscal year 1989, I see us in a much – improved position. I see us beginning to benefit from the hard work of the past few years in bringing together the CONNA Corporation, the Lawson Company, and Dairy Mart, Inc. into one strong company. Therefore, I look forward to a good and profitable year for fiscal 1989.

Yours sincerely,

Dairy Mart Convenience Stores, Inc.

Charles Nirenberg

Charles Nirenberg
Chairman of the Board and
Chief Executive Officer

# HISTORICAL SUMMARY: NATIONAL CONVENIENCE STORES

Data Taken from the Annual Report
and 10 K for the Year Ended June 30, 1988

Inventory Accounting: FIFO

| | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | | |
| | 6/30/71 | 6/30/75 | 6/30/80 | 6/30/83 | 6/30/84 | 6/30/85 | 6/30/86 | 6/30/87 | 6/30/88 |
| **NATIONAL CONVENIENCE STORES**<br>**Houston, Texas** | | | | | | | | | |
| Number of Stores | 487 | 801 | 817 | 1,012 | 1,081 | 1,130 | 958 | 950 | 1,119 |
| Store Growth in Year | 31 | -7 | 11 | 90 | 69 | 49 | -172 | -8 | 169 |
| Store Days | 172,113 | 292,365 | 296,192 | 352,910 | 383,019 | 403,484 | 402,996 | 348,214 | 378,627 |
| Sales Per Day | $418 | $552 | $1,036 | $1,214 | $1,367 | $1,393 | $1,397 | $1,478 | $1,453 |
| Sales Growth $DPD | $57 | $121 | $117 | -$84 | $153 | $26 | $4 | $81 | -$25 |
| Gross Profit Percentage on Store Sales | | | | | | — | 36.6% | 37.1% | 38.2% |
| Gross Profit Dollars Per Store Per Day | | | | | | — | $511 | $548 | $555 |
| Gross Profit Dollars Per Store Per Day From Gasoline | | | | | | — | $95 | $94 | $109 |
| Total Gross Profit Per Store Per Day | | | | | | — | $606 | $642 | $664 |
| % Increase in Gross Profit Per Store Per Day | | | | | | — | | 5.9% | 3.4% |
| Operating Cost Per Store Per Day | | | | | | — | $596 | $670 | $663 |
| % Increase in Operating Cost Per Day | | | | | | — | | 12.4% | -1.0% |
| Pretax Profit $DPD | $7.07 | $5.87 | $44.88 | $65.03 | $75.75 | $58.33 | $10.30 | $-28.42 | $.57 |
| After Tax Profit $DPD | $4.41 | $4.30 | $27.18 | $40.31 | $48.16 | $38.43 | $8.88 | $-15.64 | $17.85 |

*Continued on next page.*

## HISTORICAL SUMMARY: NATIONAL CONVENIENCE STORES

*(Continued)*

Data Taken from the Annual Report
and 10 K for the Year Ended June 30, 1988

Inventory Accounting: FIFO

| | 1ST SURVEY | 5TH SURVEY | 10TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | | |
| | 6/30/71 | 6/30/75 | 6/30/80 | 6/30/83 | 6/30/84 | 6/30/85 | 6/30/86 | 6/30/87 | 6/30/88 |
| Store Closures | 10 | 71 | 28 | 92 | 35 | 44 | 254 | 38 | 125 |
| Gasoline Units | 35 | 282 | 446 | 695 | 775 | 824 | 713 | 723 | 874 |
| $DPD Ranking | 6/10 | 12/13 | 3/13 | 2/12 | 2/11 | 3/9 | 8/8 | 8/8 | 6/8 |

**BASIS FOR PROFIT PER DAY DETERMINATION**

National Convenience Stores operated 1,119 convenience stores in five Sun Belt states on June 30, 1988 under the "Stop 'N' Go" name. 75% of the stores are in Texas and 47% of the stores are in Houston, Texas.

1. The annual report states that store merchandise sales were $550,000,000.
2. Store Days:
   Store days of stores open all year: 950 × 366 = 347,700
   Store days of new stores (half year only): 169 × 183 = 30,927
   Total Store Days: 378,627
3. Sales per Store per Day:
   Store sales of $550,000,000 divided by 378,627 store days equals average daily sales of $1,453 per store per day for the year.
4. Pretax Profit:
   Pretax profits of $215,000 have been divided by store days of 378,627 to arrive at a pretax profit per store per day of $.57.
5. After Tax Profit:
   After tax profits of $6,754,000 were created through changes in the tax law. These profits have been divided by store days of 378,627 to arrive at an after tax profit per store per day of $17.85.

Comments: National Convenience Stores continues to hang in there. They twist and turn (buy, sell, open, close, have their stock bought and their stock sold), but they remain in business. They've had virtually no average daily sales growth for five years. They owe their small profit this year to the trading off of gasoline gallons for a couple of cents a gallon higher gasoline margin. They held the line on expenses. There was almost a touch of humility in their annual report.

# NATIONAL CONVENIENCE

## EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE, 12.31.87

### TO OUR SHAREHOLDERS

During fiscal 1988, National Convenience Stores achieved a return to profitability as well as meaningful progress toward our long-term goals.

We continued an asset repositioning program that gives NCS a much more efficient store base. Three years ago we had approximately 1,100 stores in twenty-one cities, and today we have a similar store count in only ten cities. This provides significant efficiencies in the operation of our Stop N Go stores.

A major acquisition of stores from another operator in the Houston market was a significant element of this repositioning. This transaction was financed with debt, and consequently, debt levels are higher than a year ago. Management is executing an action plan that will bring debt to less than pre-acquisition levels by the end of calendar 1988.

We also implemented important new marketing and advertising efforts in the latter part of the fiscal year.

NCS recorded earnings from continuing operations of $225,000 in the year ended June 30, 1988. Total earnings for fiscal 1988 were $6,754,000 including a $6,531,000 gain resulting from implementation of a change in accounting principles for income taxes. These results compare to a loss of $5,445,000 in fiscal 1987. Sales for fiscal 1988 rose to $915 million, a 10.5 percent increase over the $828 million recorded in fiscal 1987.

NCS' Stop N Go stores sold 420 million gallons of gasoline at an average gross margin of 9.8 cents per gallon. These results compared with 426 million gallons at a margin of 7.7 cents for fiscal 1987.

Average sales per store improved by five percent from $867,000 in fiscal 1987 to $910,000 for fiscal 1988.

***Focusing on Markets***

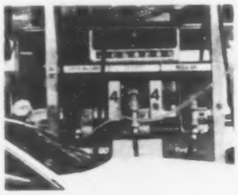
During the challenge of the past three years, NCS decided to concentrate on markets where we can be the leader. We are not focused on total store count or store count in a region or state. We are focused on increasing store count in specific cities, because that is what the operating economics of our business tell us to do. With a significant position in a major city, we can enjoy dramatically improved operating efficiencies, more advertising muscle in the marketplace, and improved costs on products and services.

With this goal guiding us, NCS has been systematically realigning itself to a more competitive position in its Sunbelt marketplace.

Four major recent transactions have been a part of this overall effort. ◆ The March 1986 sale of 186 stores in nine markets to Circle K. ◆ The August 1987 sale of 40 NCS stores in the Midland/Odessa market to Southland Corporation. ◆ The January 1988 purchase of 269 7-Eleven stores in the Houston market from Southland Corporation — strengthening Stop N Go's position as the leader in our "home" market. ◆ The August 1988 sale of 43 NCS stores in Las Vegas to Southland Corporation.

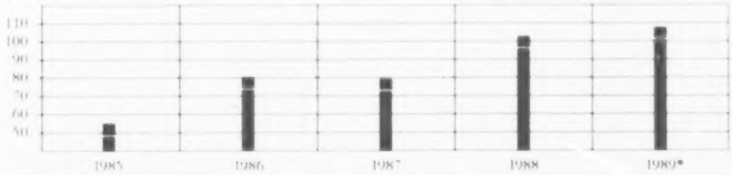
# NATIONAL CONVENIENCE

## EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE, 12.31.87



As a dramatic illustration of this restructuring, NCS had increased its average number of stores per market from 54 in 1985 to 102 at the end of fiscal 1988. With the Las Vegas sale at the start of the 1989 fiscal year, we have further improved to an average of over 107 stores per market. We now operate 1,076 Stop N Go stores in 10 markets, versus the 1,130 stores in 21 markets in 1985. With this change, we face fiscal 1989 with a far more efficient store base and a more competitive posture in each local market we serve.

*Average Stores Per Market*



*After Las Vegas Sale

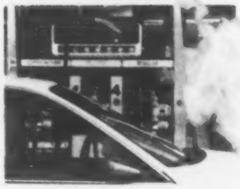
### *Building Our Presence in Houston*

Our acquisition of all of a competitor's stores in Houston was certainly the most important event of fiscal 1988 and the benefits of that transaction are deserving of some additional comment. ◆ NCS has moved to a much stronger leadership position in the Houston market. ◆ We now enjoy one of the most efficient marketing structures in the convenience store industry with over 500 stores in one metropolitan area. ◆ Our overhead costs per store in Houston are significantly reduced. ◆ Product acquisition and distribution costs are reduced. ◆ The cost-effectiveness of our advertising is greatly improved.

The operating characteristics of a high-quality physical plant came along with the benefits listed above. Ninety percent of these stores sell gasoline, most are on corner locations, and all have been remodeled within the last three years.

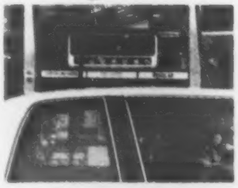
The quality and value of the acquired Houston stores are perhaps best illustrated in the following chart comparing this acquisition with recent divestitures by NCS.

| | Stores sold by NCS (per store) | Houston stores acquired by NCS (per store) |
|---|---|---|
| Price | $555,000 | $282,000 |
| Price without real estate | $215,000 | $124,000 |
| Monthly merchandise sales | $ 54,900 | $ 46,500 |
| Monthly gasoline gallonage | 24,800 | 38,500 |



### *Strengthening the Balance Sheet*

While the Houston acquisition was financed with bank debt, we have moved to reduce our debt and strengthen our balance sheet in four ways. ◆ The $25.5 million in proceeds from the sale of the Las Vegas stores will be used to reduce debt. ◆ The Company is



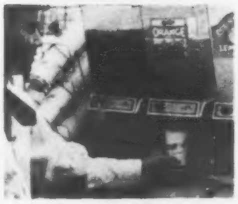
in the process of turning $63 million of owned store real estate into cash through a series of sale-leaseback transactions involving 88 stores. (After completing these, NCS will continue to own an additional 290 stores.) ◆ Capital expenditures for the coming fiscal year will be held at a relatively modest $20 million. ◆ The sale of surplus and excess real estate is expected to generate $6 to $7 million in cash in fiscal 1989.

The Company continues to enjoy a strong position in terms of internally generated funds. Even at breakeven, NCS generates in excess of $30 million annually in cash flow from operations.

As a result, we expect to repay the money borrowed to fund the Houston acquisition by December 1988. This reduction in debt will represent a major improvement in the Company's financial flexibility.

### *An Improving Houston Economy*

While our decision to acquire stores in Houston was not predicated upon a local recovery, we are encouraged by numerous signs indicating that the Houston economy is clearly improving. ◆ 26,000 new jobs were added in Houston from January 1987 through January 1988, according to the Texas Employment Commission. This represents a significant turnaround after three years of employment declines. ◆ *Houston Chronicle* "help wanted" ads are up 28 percent compared with last year. ◆ Port tonnage for Houston is up 18 percent for the first five months of 1988 compared with a year ago. ◆ $1 billion a year in road construction and mass transit improvements will be spent by federal, state, and local agencies in Houston through 1990. ◆ A $1.5 billion construction program is under way involving 14 institutions in the Texas Medical Center in Houston. Approximately 3,500 people are expected to be hired by TMC institutions this year. ◆ More than 50 petrochemical plant construction or expansion projects are under way in the greater Houston area. This $1.5 billion series of projects will create 8,500 construction jobs through 1990. ◆ Congress has approved $900 million in funding for NASA's Space Station project during the current federal fiscal year. Much of the work is to be managed by the Johnson Space Center in Houston. ◆ NPA Data Services, a division of the National Planning Association in Washington, D.C., has projected an average annual growth of 56,000 people a year for Houston through the year 2000—making it the second fastest growing urban area in the nation.



The local economies in Dallas, Austin, and to a lesser extent San Antonio, continue to show some problems, but they do not appear to be as deep nor as pervasive as the downturn we have experienced in Houston. The economy in El Paso is healthy, as are the markets for our stores in California, Florida, Georgia, and Tennessee. With Houston's apparent recovery under way, we expect to see a steadily improving economic climate for Stop N Go stores as we enter fiscal 1989.

# NATIONAL CONVENIENCE

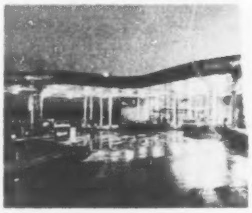
## EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE, 12.31.87

### *Telling the Good Neighbor Story*

"You need goods friends close by . . . that's the reason why . . . Stop N Go is there . . ."

Our television, radio, newspaper, and outdoor advertising for this fiscal year is our best ever in telling the story of the Stop N Go Neighborstore®. A major campaign was introduced in Houston in late April and will continue through fiscal 1989.

The NCS advertising campaign is a mix of "image" and "product" promotions. The image portion of our advertising is designed to create a fun, friendly, inviting atmosphere — one to bring new customers into the stores. With the product promotion, we create the push — a short-term, discounted special, usually linked with a minimum purchase. We believe the campaign offers our strongest marketing message yet in terms of building a qualitative foundation that differentiates Stop N Go in the marketplace while adding the immediacy and impact of a special promotion.



The current campaign represents the largest advertising commitment in the Company's history. We are convinced that advertising is necessary to drive sales in today's convenience store industry.

### *The Management Commitment*

We continue our commitment at NCS to six objectives that we believe are the guideposts for long-term growth and profitability. These are: ◆ To increase sales by attracting a broader customer base through changes in store design and merchandise mix. ◆ To enhance gross margins on merchandise sales, primarily through growth in our high-margin fast food and nonfood product categories. ◆ To expand our gasoline business — because it generates healthy profits and attracts additional merchandise customers. ◆ To pursue unit growth through new store construction and selective acquisitions. ◆ To realize economies of scale in operating expenses through an efficient organizational structure coupled with effective information systems. ◆ To attain a leading position in each market in which we operate.

It is these six tenets that continue to direct our actions as we move the Company into a stronger and more competitive position.

### *Reaching Out to More Customers*

As we enter fiscal 1989, we are excited about the profit potential for our innovative "Hex" store design. The Hex (named for its hexagonal shape) store was pioneered by Stop N Go as a unique format to appeal to a broader range of shoppers, particularly women and professionals. The Stop N Go Hex store, with 3,100 square feet of well-lit retail space, offers an expanded fast food operation, new high-margin merchandise and a larger gasoline installation.

Our Hex stores generate merchandise sales volumes 21 percent higher and gasoline sales over twice as high as the levels achieved in our conventional stores.

We now have a total of 139 Hex stores representing an investment in excess of $100 million. Most of the earlier units were opened in Texas markets which have since seen difficult economic conditions. These units have built sales and profits more slowly than we originally

## NATIONAL CONVENIENCE

### EXCERPT FROM THE ANNUAL REPORT OF NATIONAL CONVENIENCE, 12.31.87

anticipated. Our Hex stores did earn a small profit in fiscal 1988. We expect some help from improved conditions in Texas markets as we move ahead, but our primary thrust for greater profits in the Hex store group involves enhancing sales through changes in the product offering.

We believe that the NCS Hex store is vastly superior to the small gasoline convenience stores now entering the market. The gasoline stores continue to treat merchandise as a small sideline, offering narrow selection and consequently limited convenience for the customer.

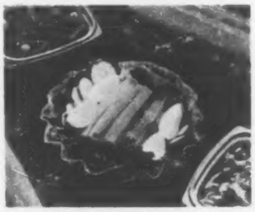
***Achieving Organizational Efficiency***

Retailing is a highly competitive business, and it is with our competition in mind that we continue to improve our operating efficiency. NCS has invested significant time and money in developing state-of-the-art information systems to help us manage the business more effectively.

We have installed point-of-sale scanning registers to give us accurate, timely information on store operations and product movement. The system brings our buyers much closer to our customers by providing immediate feedback on the sales results from new products and promotions.

We are installing a new store accounting system that speeds financial information from each Stop N Go store. A laborious and costly system of manual reports is being replaced by hand-held computers in each store that report data on a daily basis. Management information and financial controls are greatly improved and accounting costs will be decreased by $500,000 per year.

***Improving the Product Offering***



One of the most intriguing and challenging aspects of any retail business is the creation of greater sales and profits from existing customers and store locations. Stop N Go averages 850 customers a day through each of our 1,076 stores. As the concept of the convenience store matures, NCS is committed to maintaining its position as an innovator and an industry leader in its product offerings. While our current breadth of over 3,000 convenience products provides a wide range of attractions for customers, much of our management focus is and will continue to be placed on changing our product offering to enhance sales and profits. Consumer preferences are dynamic. Our challenge is to quickly react to opportunities, and to lead change by serving as an innovator in the product mix we offer.

A number of "test" stores will be examined during the coming fiscal year in this continuing search for ways that we can better meet the needs of our current and future customers. Our improved management information systems and in-store scanning registers will allow us to closely monitor and evaluate these marketing test efforts. We will be looking

for quality items that can be offered, often at competitive pricing, and contemporary new products for the convenience store market.

***Building on a Tradition of Success***

We believe that the challenges we have faced in dealing with the weak Texas economy have made our management team tougher and more competitive. We are optimistic about our future for five reasons. ◆ We have the confidence of a strong track record — an annual sales growth rate of 13% over the last decade. ◆ We continued to invest for the future during the downturn. We built new stores, remodeled our older stores, and created a more efficient management organization and systems. ◆ We have a cost-effective store base concentrated in 10 major markets. ◆ We believe that the Texas economy will improve as we move forward. That recovery is already under way in Houston. ◆ Demand for our real products — convenience and time savings — continues to grow.

While many challenges still await us, we are excited and optimistic about the future of NCS. We greatly appreciate your loyalty and support during the past three years and we are looking forward to more profitable ones ahead.

Sincerely yours,

V. H. Van Horn
President and
Chief Executive Officer
September 19, 1988

# HISTORICAL SUMMARY: SEVEN-ELEVEN JAPAN CO., LTD.

Data Taken from the Annual Report
for the Year Ended February 29, 1988

| | 10TH SURVEY | 11TH SURVEY | 12TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18th SURVEY |
|---|---|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | | | |
| | 2/29/80 | 2/28/81 | 2/28/82 | 2/28/83 | 2/29/84 | 2/28/85 | 2/28/86 | 2/28/87 | 2/29/88 |
| **SEVEN-ELEVEN JAPAN CO., LTD.<br>Tokyo, Japan Established 1973** | | | | | | | | | |
| Number of Stores | 801 | 1,040 | 1,306 | 1,643 | 2,001 | 2,299 | 2,651 | 2,964 | 3,304 |
| Store Growth in Year | 210 | 239 | 266 | 337 | 358 | 298 | 352 | 313 | 340 |
| Store Days | 254,736 | 335,863 | 428,012 | 538,024 | 666,852 | 784,601 | 900,900 | 1,024,894 | 1,147,044 |
| Sales per Day | | | | | $3,737* | $3,851* | $3,934* | $3,978* | $4,081 |
| Sales Growth $DPD | | | | | | $114* | $83* | $44* | $103 |
| Pretax Profits $DPD | | | | | | | $251.14 | $265.85* | $291.83 |
| After Tax Profit $DPD | | | | | | $92.27 | $106.67* | $113.37* | $128.94 |
| Store Closures | | — | — | 21 | 18 | 17 | 14 | — | 49 |
| Gasoline Units | | — | — | — | — | — | — | — | — |
| Average Square Foot Per Store | | | | 978 | 985 | 985 | 992 | 995 | 1,001 |
| Yearly Sales Per Square Foot | | | | | | $1,427* | $1,447* | $1,459* | $1,492 |

## BASIS FOR PROFIT PER DAY DETERMINATION

7-Eleven Japan Co., Ltd. operated 3,304 7-Eleven stores in 19 of Japan's prefectures on February 29, 1988. Eighty of these units are company operated and 3,224 are franchised.

The average 7-Eleven store in the United States had total store sales of $784,020 from 2,400 square feet last year, or $326 of sales per square foot. The average 7-Eleven store in Japan had total store sales of $1,489,565 from 1,001 square feet or sales of $1,492 per square foot.

The average dollars of pretax profit per store day for 7-Eleven in the United States was -$64.45. The average pretax profit per store per day for 7-Eleven Japan was $291.83.

7-Eleven Japan Co. paid Southland $21,453,000 as a royalty during the fiscal year. That was 45/100th of 1% of sales. It amounted to $18.70 per store per day for 7-Eleven Japan and $7.58 per store per day for each 7-Eleven store in the United States. The recent prospectus says these or a portion of these royalties may be sold or monetized.

*These dollar figures for previous years have been adjusted To the 128 yen to the dollar rate.

# SEVEN ELEVEN (JAPAN)

EXCERPT FROM THE ANNUAL REPORT OF SEVEN ELEVEN (JAPAN), 12.31.87

*Toshifumi Suzuki, President (left), and Masatoshi Ito, Chairman*

## To Our Stockholders

### Fourteen Consecutive Years of Growth in Sales and Net Income

Fiscal 1988, ended February 29, 1988, was a significant year for Seven-Eleven Japan. It was the 14th straight year of increased sales and net income, and was the year our chain topped the 3000-store mark.

Net Sales rose 14.8% to ¥599,116 million (U.S.$4,680.6 million), while net income jumped 27.3%, amounting to ¥18,937 million (U.S.$147.9 million). Earnings per share reached ¥155.0 (U.S.$1.21), a 27.3% increase over the previous year. The number of stores in the chain expanded by 340 to total 3,304. Major financial indicators also posted substantial gains. Return on revenue showed a strong 4.3 point improvement, reaching 19.7%, while return on total assets increased by 0.5 points to 13.1%, and return on stockholders' equity grew to 22.3%, a 0.8 point rise. These indicators, the highest level in the Japanese retail industry, demonstrate the strength of Seven-Eleven's operations base and its ability to sustain high profitability.

Though the 1988 fiscal year began with predictions of continued economic sluggishness due to the appreciation of the yen, efforts by the government to increase overall domestic demand, and a shift from export- to domestic-oriented production in manufacturing, provided enough of an impetus to produce healthy economic growth over the year. Consumer demand showed rising trends, bolstered by stable prices and increased imports due to the strength of the yen. However, the diversification of lifestyles among the Japanese is causing radical changes in consumer needs. Current territorial expansion among convenience stores, especially the larger chain operators, has caused even more intense competition for the market.

### Existing Stores Record 5.9% Increase in Sales

Fiscal 1988 was a continuation of the road that Seven-Eleven has followed since its establishment; there has been no change in strategy. We streamline our operations to continually improve our ability to respond to change, and to provide convenience stores that meet the customers' needs. Without letting ourselves be held down by past ideas—in store expansion, merchandising, information systems, and distribution—we set our own path for innovation, and keep moving. This fiscal year our existing stores posted a 5.9% increase in sales. More than anything else, this demonstrates that the loyalty our customers have to our stores is a result of our efforts.

### Merits of 3000-Store Scale

The network scale of over 3000 Seven-Eleven stores that we now have provides enormous benefits for the promotion of our growth strategies, today and tomorrow. It solidifies our relationships with vendors, manufacturers, and distributors. With optimum use of our retail information gathering ability through our establisied store information systems, Seven-Eleven's size now gives us the scale-merits to strengthen our merchandising power, such as the development and procurement of products. The tremendous volume of POS data is already proving useful for production and transportation planning for our many suppliers. This strategy, tied with the efforts of franchisees to display only fast-moving items and to decrease sales losses, allows constant feedback as we pursue the placement of the best merchandise mix in each of our stores. This year, Seven-Eleven became Japan's largest food retailer; proof that our strategy is working.

### Accepting Utility Bill Payments

In October of 1987, Seven-Eleven, in conjunction with Tokyo Electric Power Company, began offering our customers the new service of accepting their payments for electric bills. In March of 1988 we joined with Tokyo Gas Co., Ltd., to provide the same service. Seven-Eleven is the first and only retailer in Japan to provide these services, symbolizing just how much a part of the everyday lives of the Japanese we have become. Our overwhelming lead in integrated store information systems gives us the potential to develop a diverse array of new services for our customers. And we plan to do just that, making our convenience stores ever more convenient, in order to keep pace with the changing times.

### The Outlook

Seven-Eleven will continue to push forward with its store expansion, information systems, merchandising, and distribution strategies. We firmly believe this will maintain our already strong growth rate. At present, our store network covers only 19 of Japan's 47 prefectures. Throughout the country there are over 1.7 million small retail stores, most of which produce only a meager profit. Many of them have the potential to become a Seven-Eleven franchisee. Seven-Eleven will continue to promote its market-dominance strategies to more deeply penetrate the territories in which we operate. Further expansion, together with growth in the sales of our existing stores, will ensure highly profitable growth in the future.

We would like to thank our stockholders, customers, and franchisees for their continuing support.

Masatoshi Ito

Masatoshi Ito
*Chairman and Representative Director*

Toshifumi Suzuki

Toshifumi Suzuki
*President and Representative Director*

## STORES OWNED BY OTHER PUBLICLY-OWNED COMPANIES

Here is some information on convenience type stores and chains of stores owned by other public companies. We look at these annual reports every year to determine if we can extract enough information to develop meaningful figures for the Survey. There is not enough information provided in the annual reports to prepare figures for the stores operated by these companies.

Few of these chains were started by the companies that now operate them. Some of the chains have changed hands several times.

| COMPANY NAME | STORES OPERATED UNDER THESE NAMES | NUMBER OF STORES 11TH SURVEY | NUMBER OF STORES 12TH SURVEY | NUMBER OF STORES 13TH SURVEY | NUMBER OF STORES 14TH SURVEY | NUMBER OF STORES 15TH SURVEY | NUMBER OF STORES 17TH SURVEY | NUMBER OF STORES 18TH SURVEY |
|---|---|---|---|---|---|---|---|---|
| Kroger | Kwik Shop<br>Quik Stop Markets<br>Time Saver Stores<br>Tom Thumb Food Stores<br>Turkey Hill Minit Market<br>Loaf 'N Jug<br>Mini Mart | 338 | 349 | 352 | 352 | 443 | 735 | 889 |
| Marsh Supermarkets, Inc. | Village Pantry | 123 | 131 | 140 | 142 | 154 | 170 | 166 |
| Convenient Food Mart (Includes operations of 38 regional franchisers, more than 300 of these are operated by Dairy Mart whose operations are included in the Survey) | 473 operated by CFM Franchising Co. & its direct Store Franchisees | 1004 | 1038 | 1078 | 1086 | 1134 | 1316 | 1345 |
| Uni-Marts, Inc. | Uni-Marts | — | — | 92 | 122 | 144 | 208 | 234 |
| ARCO | AM/PM | 500 | 685 | — | 765 | 792 | 525 | 620 |
| Southland | Quik Mart | 330 | 350 | 351 | 351 | 291 | 163 | 122 |
| | High's Dairy Stores | | | | | | | 361 |
| Ashland Oil, Inc. | SuperAmerica | N/A | 265 | — | 300 | 316 | N/A | 450 |
| Crown Central | Fast Fare<br>Zippy Mart<br>Express Mart | | | | | | | 551 |
| Coastal | Coastal Mart | | | | | | | 880 |
| Diamond Shamrock R&M, Inc. | Corner Store | | | | | | | 523 |

## AGGREGATE ANNUAL PROFIT AND LOSS STATEMENT

1987 COMPARED TO 1988

| | THIS YEAR | THIS YEAR PERCENT OF TOTAL | LAST YEAR | LAST YEAR PERCENT OF TOTAL |
|---|---|---|---|---|
| Total Store Sales | $9,202,732,584 | 100.00% | $9,022,455,284 | 100.00% |
| Cost of Goods Sold in Store | 6,441,912,750 | 70.00% | 6,315,718,699 | 70.00% |
| Store Gross Margin | 2,760,819,834 | 30.00% | 2,706,736,585 | 30.00% |
| Gasoline Margin | 428,493,580 | | 390,138,900 | |
| Total Margin | 3,189,313,414 | | 3,096,875,485 | |
| Expense | 3,254,005,857 | | 2,816,969,100 | |
| Net Loss Before Income Tax | $ -64,692,443 | | $ 279,906,385 | |
| Net Profit After Income Tax | $ 21,933,722 | | $ 191,834,975 | |

## DAILY PROFIT AND LOSS STATEMENT OF THE AVERAGE STORE

1987 COMPARED TO 1988

| | THIS YEAR | THIS YEAR PERCENT OF TOTAL | LAST YEAR | LAST YEAR PERCENT OF TOTAL |
|---|---|---|---|---|
| Store Sales | $1,690.00 | 100.00% | $1,568.00 | 100.00% |
| Cost of Goods Sold in Store | 1,183.00 | 70.00% | 1,097.60 | 70.00% |
| Store Gross Margin | 507.00 | 30.00% | 470.40 | 30.00% |
| Gasoline Margin | 78.72 | | 67.79 | |
| Total Margin | 585,72 | | 538.19 | |
| Expense | 596.58 | | 489.56 | |
| Net Loss Before Income Tax | $ -10.86 | | $ 48.63 | |
| Net Profit After Income Tax | $ 3.68 | | $ 33.33 | |

## ANNUAL PROFIT AND LOSS STATEMENT OF THE AVERAGE STORE

FOR THE EIGHT CHAINS IN THE SURVEY IN 1987
AND THE EIGHT CHAINS IN THE SURVEY IN 1988

| | THIS YEAR | THIS YEAR PERCENT OF TOTAL | LAST YEAR | LAST YEAR PERCENT OF TOTAL |
|---|---|---|---|---|
| Total Store Sales | $616,850 | 100.00% | $572,320 | 100.00% |
| Cost of Goods Sold — Store | 431,795 | 70.00% | 400,624 | 70.00% |
| Store Gross Margin | 185,055 | 30.00% | 171,696 | 30.00% |
| Gasoline Margin | 28,732 | | 24,743 | — |
| Total Margin | 213,787 | | 196,439 | |
| Expense | 217,751 | | 178,690 | |
| Net Loss Before Income Tax | $ -3,964 | | $ 17,749 | |
| Net Profit After Income Tax | $ 1,343 | | $ 12,165 | |

1. Assuming gas margin of $78.72 per day per store for the 1988 Survey.
2. Assuming gas margin of $67.79 per store per day for all stores in the 1987 Survey.

Gas margin in the stores with gasoline would of course be higher than these averages.

## PRETAX DOLLARS OF PROFIT PER DAY

| DOLLARS PER DAY PROFIT RANKING | COMPANY | NUMBER OF STORES | PRETAX PROFIT PER STORE PER DAY |
|---|---|---|---|
| 1 | Casey's | 653 | $ 77.94 |
| 2* | Circle K | 4,077 | 66.76 |
| 3 | Silcorp | 1,049 | 16.06 |
| 4 | Dairy Mart | 1,188 | 15.30 |
| 5 | Sunshine Jr. | 316 | 13.88 |
| 6* | National Convenience | 1,119 | .57 |
| 7* | Munford | 705 | -9.39 |
| 8 | Southland | 7,818 | -64.45 |
| Total Stores in the Survey | | 16,925 | |
| Average Dollars Profit Per Day | | | $00.00 |

*FIFO Inventory Valuation For Store Inventories

## PROFIT PER STORE PER DAY

The average profit (unadjusted for inflation) decreased from $48.63 per store per day to an average loss of $10.36 per store per day. The Dollars Per Day profit for five of the chains decreased, and the Dollars Per Day profit for three of the chains increased. Southland's large loss overshadowed an overall poorer performance by the chains in the Survey.

# PRETAX PROFIT GROWTH SCHEDULE

| DOLLARS PER DAY PROFIT RANKING | COMPANY | PRETAX PROFIT PER STORE PER DAY GROWTH OVER LAST YEAR |
|---|---|---|
| 1 | Casey's | $-5.23 |
| 2 | Circle K | -8.42 |
| 3 | Silcorp | 3.55 |
| 4 | Dairy Mart | -26.25 |
| 5 | Sunshine Jr. | -27.69 |
| 6 | National Convenience | 28.99 |
| 7 | Munford | -36.44 |
| 8 | Southland | -123.64 |

## TOTAL OPERATING COST PER STORE PER DAY

| RANKING | COMPANY | COST TO OPERATE A STORE A DAY |
|---|---|---|
| 1 | Southland | $845 |
| 2 | National Convenience | 663 |
| 3 | Circle K | 482 |
| 4 | Casey's | 350 |
| 5 | Munford | 401* |
| 6 | Silcorp | 336 |
| 7 | Dairy Mart | 317* |
| 8 | Sunshine Jr. | 292 |

*Estimates

## MARGIN, OPERATING COST, PROFIT

ON A DOLLARS PER STORE PER DAY BASIS

| RANKING | COMPANY | GROSS MARGIN DEVELOPED PER STORE PER DAY | COST TO OPERATE A STORE A DAY | PRETAX PROFIT PER STORE PER DAY |
|---|---|---|---|---|
| 1 | Southland | $781 | $845 | $-64 |
| 2 | National Convenience | 664 | 663 | 1 |
| 3 | Circle K | 549 | 482 | 67 |
| 4 | Casey's | 428 | 350 | 78 |
| 5 | Munford | 392* | 401* | -9 |
| 6 | Silcorp | 352 | 336 | 16 |
| 7 | Dairy Mart | 332* | 317* | 15 |
| 8 | Sunshine Jr. | 306 | 292 | 14 |

*Estimates

## TOTAL GROSS MARGIN SCHEDULE

PER STORE PER DAY

| RANKING | COMPANY | TOTAL GROSS MARGIN DEVELOPED PER STORE PER DAY |
|---|---|---|
| 1 | Southland | $781 |
| 2 | National Convenience | 664 |
| 3 | Circle K | 549 |
| 4 | Casey's | 428 |
| 5 | Munford | 392* |
| 6 | Silcorp | 352 |
| 7 | Dairy Mart | 332* |
| 8 | Sunshine Jr. | 306 |

*Estimates

## AVERAGE FIGURES FOR THE CHAINS IN THIS SURVEY

| | 1976 SEVENTH SURVEY | 1978 EIGHTH SURVEY | 1979 NINTH SURVEY | 1980 TENTH SURVEY | 1981 ELEVENTH SURVEY | 1982 TWELFTH SURVEY | 1983 THIRTEENTH SURVEY | 1984 FOURTEENTH SURVEY | 1985 FIFTEENTH SURVEY | 1986 SIXTEENTH SURVEY | 1987 SEVENTEENTH SURVEY | 1988 EIGHTEENTH SURVEY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average Sales Per Store Per Day | $723 | $751 | $859 | $978 | $1,086 | $1,222 | $1,310 | $1,413 | $1,509 | $1,586 | $1,568 | $1,690 |
| Sales Growth (average day this year versus average day last year) | $ 65 | 28 | 108 | 119 | 112 | 136 | 88 | 103 | 96 | 77 | -18 | 122 |
| Total Sales Per Store Per Year | $263,895 | 274,115 | 313,535 | 356,970 | 396,390 | 446,030 | 478,150 | 515,745 | 550,785 | 578,890 | 572,320 | 616,850 |
| Sales Per Store Per Week | $ 5,061 | 5,257 | 6,013 | 6,846 | 7,602 | 8,577 | 9,170 | 9,891 | 10,563 | 11,133 | 10,976 | 11,862 |
| Total Pretax Profit on Sales Per Store Annually | $ 9,194 | 10,026 | 12,052 | 13,935 | 14,687 | 18,870 | 18,338 | 19,786 | 19,089 | 19,662 | 17,749 | -3,964 |
| Total After Tax Profit Per Store Annually | $ 4,752 | 5,431 | 6,395 | 8,964 | 8,628 | 10,705 | 10,574 | 12,837 | 14,691 | 13,621 | 12,165 | 1,343 |
| Pretax Profit Per Store Per Day | $ 25.19 | 27.47 | 33.02 | 38.18 | 40.24 | 51.70 | 50.24 | 54.21 | 52.30 | 53.87 | 48.63 | 10.86 |
| After Tax Profit Per Store Per Day | $ 13.02 | 14.88 | 17.52 | 24.56 | 23.63 | 29.33 | 28.97 | 35.17 | 40.25 | 37.32 | 33.33 | 3.68 |
| Percentage of Profit Pretax on Store Sales | 3.56% | 3.65% | 3.84% | 3.90% | 3.70% | 4.23% | 3.90% | 3.90% | 3.52% | 3.45% | 3.10% | — |
| Percentage of Profit after Tax on Store Sales | 1.84% | 1.98% | 2.04% | 2.51% | 2.17% | 2.40% | 2.25% | 2.52% | 2.71% | 2.39% | 2.13% | — |

## STATUS OF SALES, MARGIN, EXPENSE, AND PROFIT

Note the following recap of these important areas. They have been broken down on a per store per day basis.

| YEAR | SALES | COGS* | STORE MARGIN | GASOLINE* MARGIN | TOTAL MARGIN | EXPENSES | AVERAGE PRETAX PROFIT PER DAY | SALES GROWTH | EXPENSE GROWTH | PROFIT GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|
| 1971 | $495 | $356.40 | $138.60 | $10.00 | $148.60 | $134.15 | $14.45 | Base Yr. | Base Yr. | Base Yr. |
| 1972 | 530 | 381.60 | 148.40 | 10.00 | 158.40 | 140.67 | 17.73 | $ 35 | $6.52 | $3.28 |
| 1973 | 479 | 416.55 | 162.12 | 20.00 | 182.12 | 163.37 | 18.78 | 49 | 22.70 | 1.05 |
| 1974 | 486 | 421.92 | 164.08 | 20.00 | 184.08 | 164.24 | 19.84 | 7 | .87 | 1.06 |
| 1975 | 636 | 473.76 | 178.05 | 25.00 | 203.05 | 181.89 | 21.16 | 50 | 17.65 | 1.32 |
| 1976 | 658 | 473.76 | 184.24 | 25.00 | 209.24 | 185.30 | 23.94 | 22 | 3.41 | 2.78 |
| 1977 | 723 | 520.56 | 202.44 | 25.00 | 227.44 | 202.25 | 25.19 | 65 | 16.95 | 1.25 |
| 1978 | 751 | 540.72 | 210.28 | 25.00 | 235.28 | 207.81 | 27.47 | 23 | 5.56 | 2.28 |
| 1979 | 859 | 618.48 | 240.52 | 24.18 | 264.70 | 231.68 | 33.02 | 108 | 23.87 | 5.55 |
| 1980 | 978 | 704.29 | 273.88 | 36.69 | 310.57 | 272.39 | 38.18 | 119 | 40.71 | 5.16 |
| 1981 | 1,086 | 781.92 | 304.08 | 34.67 | 338.75 | 298.51 | 40.24 | 112 | 26.12 | 2.06 |
| 1982 | 1,222 | 879.84 | 342.16 | 38.10 | 380.26 | 328.56 | 51.70 | 136 | 30.05 | 11.46 |
| 1983 | 1,310 | 943.20 | 366.80 | 30.19 | 396.99 | 346.75 | 50.24 | 88 | 18.19 | -1.46 |
| 1984 | 1,413 | 989.10 | 423.90 | 40.98 | 464.88 | 410.67 | 54.21 | 103 | 63.92 | 3.97 |
| 1985 | 1,509 | 1,056.30 | 452.70 | 57.33 | 510.03 | 457.73 | 52.30 | 96 | 47.06 | -1.91 |
| 1986 | 1,586 | 1,110.20 | 475.80 | 72.98 | 548.78 | 494.91 | 53.87 | 77 | 37.18 | 1.57 |
| 1987 | 1,568 | 1,097.60 | 470.40 | 67.79 | 538.19 | 489.56 | 48.63 | -18 | -5.35 | -5.24 |
| 1988 | 1,690 | 1,183.00 | 507.00 | 78.72 | 585.72 | 596.58 | -10.86 | 122 | 107.02 | -59.49 |
| Change Since 1971: | $1,195 | $826.60 | $368.40 | $68.72 | $437.12 | $462.43 | $-3.59 | $1,195 | $462.43 | $-3.59 |

*Assuming a 72% Cost of Goods Sold on store merchandise for the years 1971 through 1983. Beginning in 1984 we used a 70% Cost of Goods Sold.

**Gas Margin: An arbitrary gasoline Margin Dollars Per Day was used between 1971 and 1978. Beginning in 1979, the daily gas margin per day per gasoline dispensing unit of National Convenience Stores was used. This figure was multiplied by the percentage of stores with gasoline units in the Survey for the year to arrive at this daily gasoline margin figure (NCS gasoline margin of $140.83 per gasoline unit per day times 55.9% (the percentage of stores in the Survey with gasoline) equals margin of $78.72 per store per day for the 16,925 stores in the Survey).

## SALES GROWTH IN CONSTANT DOLLARS

Sales and expense growth in constant dollars are important indicators in retailing companies. We have computed the effect of inflation on sales dollars using the consumer price index as the multiplier. Our figures show wide variations in sales growth by store between the chains in the Survey.

In our first survey in 1971, the average store sold $495 in store merchandise each day. Seventeen years later, the average Survey store sold $1,695 in store merchandise in inflated dollars. When $1,695 is adjusted for the inflation since 1971, average store sales in 1987/88 were $581 in 1971 dollars. Constant dollar sales growth increased by $86 a day or a total of 17% over the seventeen year period.

You need to keep in mind that most stores operated only sixteen hours a day in 1971 and that most stores are open 24 hours a day in 1988. It is likely that on the average, there has been no real sales growth over these years. You also need to note that the chains in the Survey are not consistent over the years. Chains come and go.

# SALES COMPARISON

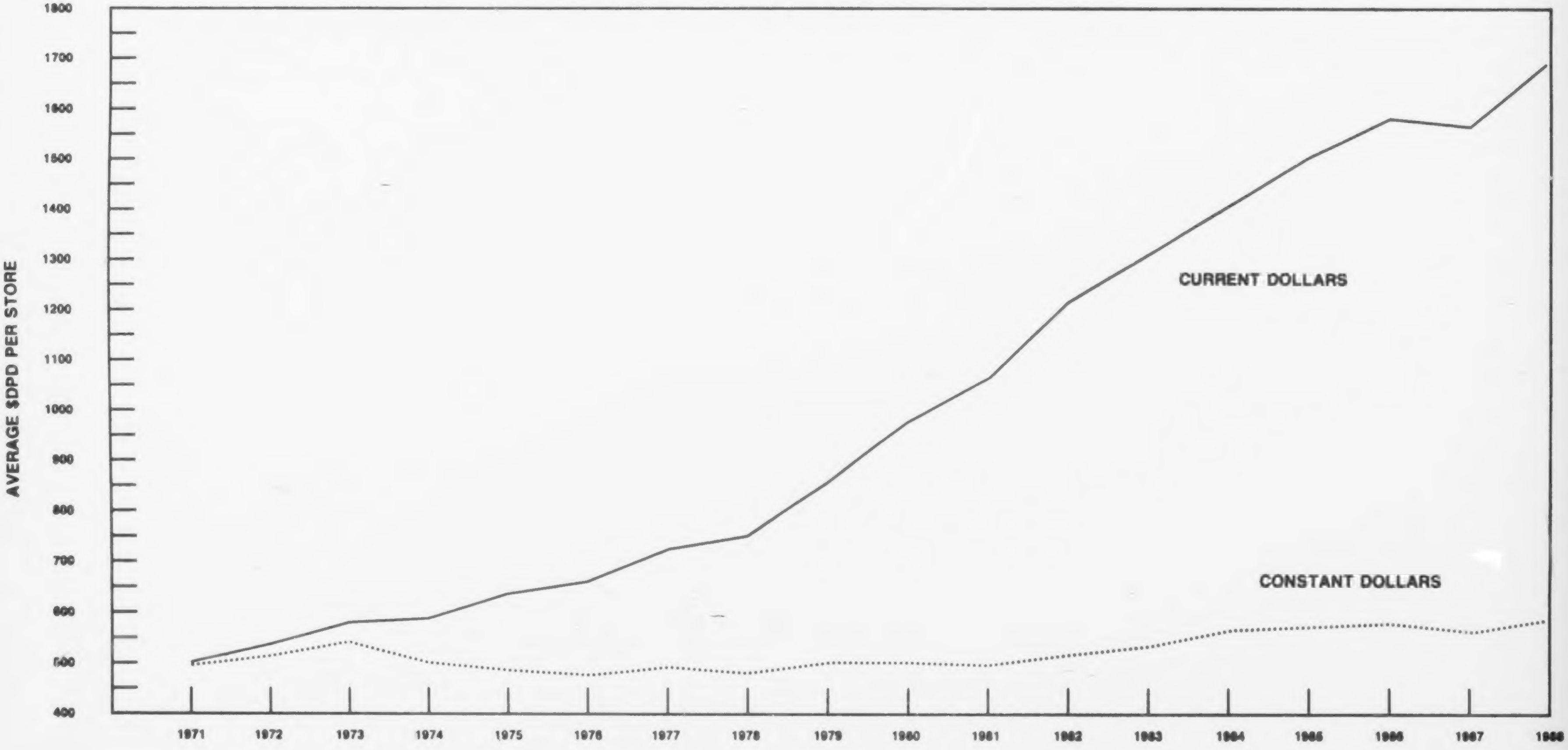
## CURRENT DOLLAR SALES VERSUS CONSTANT DOLLAR SALES FOR THE EIGHT CHAINS IN THE SURVEY

| DOLLARS PER DAY PROFIT RANKING | COMPANY | 1971 $DPD AVERAGE DAILY SALES | 1988 $DPD AVERAGE DAILY SALES | SALES GROWTH FOR 17 YR. PERIOD IN CURRENT DOLLARS | PERCENT SALES INCREASE IN CURRENT DOLLARS | 1988 AVERAGE DAILY SALES IN CONSTANT DOLLARS | SALES GROWTH FOR 17 YR. PERIOD IN CONSTANT DOLLARS | PERCENT SALES GROWTH IN CONSTANT DOLLARS |
|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | $ 707* | $ 934 | $ 227 | 32%* | $700* | $ -7 | -1% |
| 2 | Circle K | 535 | 1,255 | 720 | 135% | 431 | -104 | -19% |
| 3 | Silcorp | 1,041** | 1,154 | 113 | 11%** | 865 | -176 | -17% |
| 4 | Dairy Mart | 1,045* | — | — | — | — | — | — |
| 5 | Sunshine Jr. | 370 | 699 | 329 | 89% | 240 | -130 | -35% |
| 6 | National Convenience | 418 | 1,453 | 1,035 | 248% | 499 | 81 | 19% |
| 7 | Munford | 307 | 976 | 669 | 218% | 327 | 20 | 7% |
| 8 | Southland | 564 | 2,148 | 1,584 | 280% | 738 | 174 | 31% |
| TOTAL | | $ 495† | $1,690 | $1,195 | 241% | $581 | $ 86 | 17% |

**Base Year 1980
*Base Year 1981
† 1971 Average for the chains in the Survey at that time

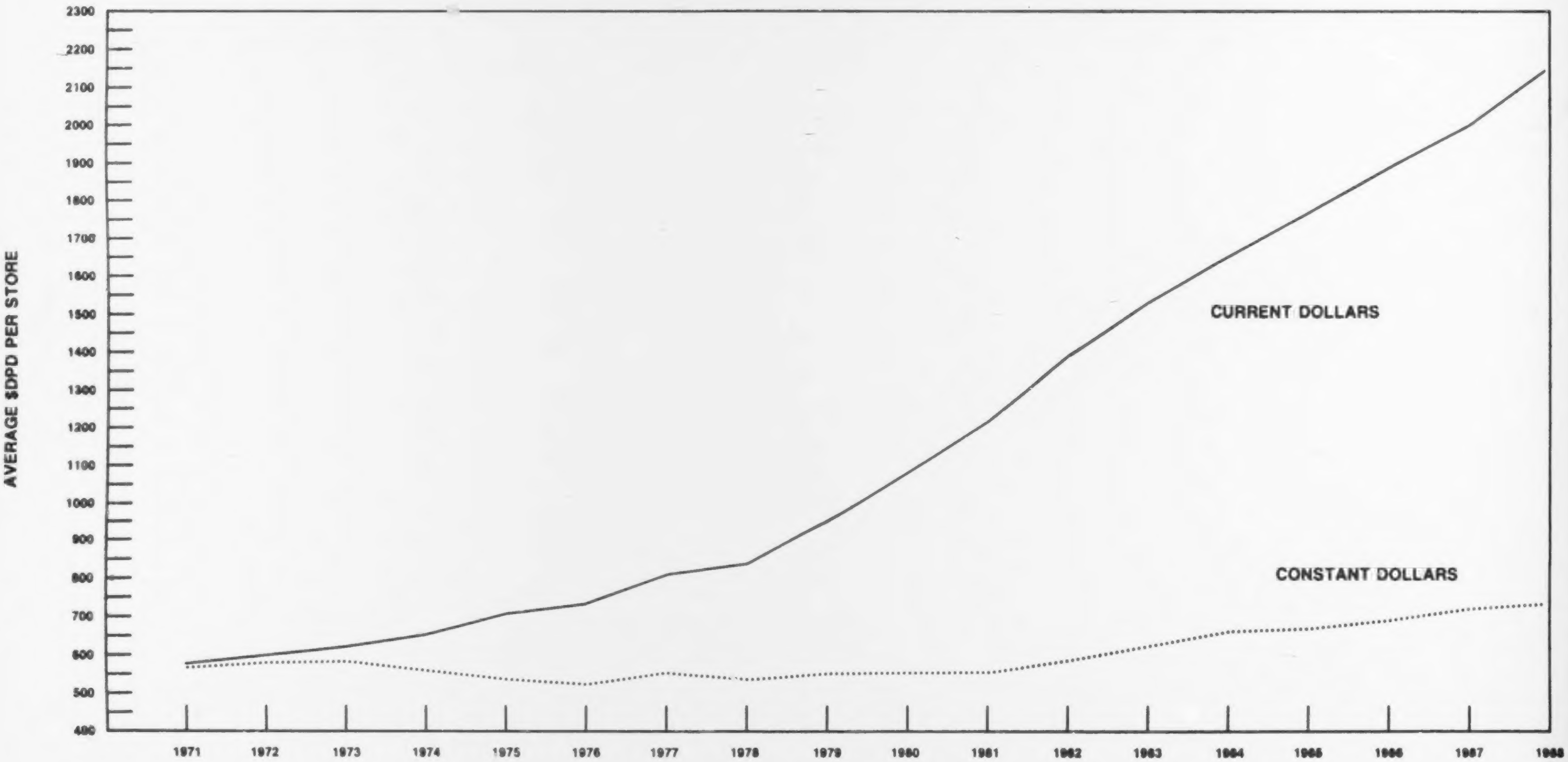
1988 CPI is 290.9% of 1974 CPI
1988 CPI is 133.4% of 1981 CPI

# SALES COMPARISON
## CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND



| | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales Reported in SDPD Survey | $495 | $530 | $579 | $586 | $636 | $658 | $723 | $751 | $859 | $978 | $1086 | $1222 | $1310 | $1413 | $1509 | $1586 | $1568 | $1690 |
| Constant Dollars Adjusted for Inflation | $495 | $513 | $541 | $500 | $485 | $471 | $492 | $478 | $500 | $500 | $497 | $516 | $532 | $563 | $569 | $576 | $561 | $581 |
| Real Sales Growth from Base Year Sales | | $18 | $46 | $5 | -$10 | -$24 | -$3 | -$17 | $5 | $5 | $2 | $21 | $36 | $68 | $74 | $81 | $66 | $86 |
| CPI-Urban Consumers 1967 - 100 | 119.2 | 123.2 | 127.7 | 139.7 | 156.1 | 166.7 | 175.3 | 187.2 | 204.7 | 233.2 | 260.5 | 282.5 | 293.1 | 299.1 | 316.1 | 328.4 | 333.1 | 346.7 |

# SALES COMPARISON
# CURRENT VERSUS CONSTANT DOLLAR SALES FOR THE SMALL FOOD INDUSTRY



| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Average $DPD Sales in Current Dollars | $564 | $598 | $624 | $653 | $708 | $731 | $813 | $841 | $950 | $1078 | $1219 | $1394 | $1532 | $1656 | $1773 | $1893 | $2003 | $2148 |
| Constant Dollar Sales Adjusted for Inflation | $564 | $578 | $583 | $557 | $540 | $523 | $553 | $535 | $553 | $556 | $558 | $588 | $623 | $660 | $669 | $687 | $717 | $738 |
| Real Sales Growth from from Base Year Sales | | $14 | $19 | -$7 | -$24 | -$41 | -$11 | -$28 | -$11 | -$8 | -$6 | $24 | $59 | $96 | $105 | $123 | $153 | $174 |
| CPI-Urban Consumers 1967 - 100 | 119.2 | 123.2 | 127.7 | 139.7 | 156.1 | 166.7 | 175.3 | 187.2 | 204.7 | 233.2 | 260.5 | 282.5 | 293.1 | 299.1 | 316.1 | 328.4 | 333.1 | 346.7 |

## STORE SALES VERSUS THE CONSUMER PRICE INDEX

| YEAR | JANUARY 1 CONSUMER PRICE INDEX | AVERAGE DAILY SALES $DPD SURVEY | AVERAGE DAILY SALES NEEDED TO KEEP PACE WITH CPI* | AVERAGE ANNUAL SALES $DPD SURVEY | AVERAGE ANNUAL SALES NEEDED TO KEEP PACE | DEVIATION FROM INFLATION PRICE |
|---|---|---|---|---|---|---|
| 1971 | 119.2 | $ 495 | | $180,675 | $ 0 | $ 0 |
| 1972 | 123.2 | 530 | $ 512 | 193,450 | 186,817 | 6,633 |
| 1973 | 127.7 | 579 | 530 | 211,335 | 193,502 | 17,833 |
| 1974 | 139.7 | 586 | 580 | 213,890 | 211,750 | 2,139 |
| 1975 | 156.1 | 636 | 658 | 232,140 | 236,684 | -4,544 |
| 1976 | 166.7 | 658 | 692 | 240,828 | 252,583 | -11,755 |
| 1977 | 175.3 | 723 | 728 | 263,895 | 265,772 | -1,877 |
| 1978 | 187.2 | 751 | 777 | 274,115 | 283,659 | -9,544 |
| 1979 | 204.7 | 859 | 850 | 313,535 | 310,218 | 3,317 |
| 1980 | 233.2 | 978 | 968 | 356,970 | 353,400 | 3,570 |
| 1981 | 260.5 | 1,086 | 1,082 | 396,390 | 394,930 | 1,460 |
| 1982 | 282.5 | 1,222 | 1,173 | 446,030 | 438,199 | 17,831 |
| 1983 | 293.1 | 1,310 | 1,217 | 478,150 | 444,205 | 33,945 |
| 1984 | 299.1 | 1,413 | 1,242 | 515,745 | 453,330 | 62,415 |
| 1985 | 316.1 | 1,509 | 1,312 | 550,785 | 479,113 | 71,672 |
| 1986 | 328.4 | 1,586 | 1,363 | 578,890 | 497,759 | 81,131 |
| 1987 | 333.1 | 1,568 | 1,383 | 572,320 | 504,805 | 67,515 |
| 1988 | 346.7 | 1,690 | 1,439 | 616,850 | 525,235 | 91,615 |

*Based on first Survey

## SALES GROWTH RANKING

IN CONSTANT DOLLARS OVER THEIR BASE YEAR

| CONSTANT DOLLAR SALES GROWTH RANKING | COMPANY | SALES GROWTH OR LOSS IN CONSTANT DOLLARS | SALES GROWTH OR LOSS PERCENT OVER BASE YEAR |
|---|---|---|---|
| 1 | Southland | $174 | 31% |
| 2 | National Convenience | 81 | 19% |
| 3 | Munford | 20 | 7% |
| 4 | Casey's | -7 | -1% |
| 5 | Silcorp | -176 | -17% |
| 6 | Circle K | -104 | -19% |
| 7 | Sunshine Jr. | -130 | -35% |

## AVERAGE SALES PER STORE PER DAY RANKING AND THIS YEAR'S SALES GROWTH VERSUS INFLATION

| AVERAGE SALES PER DAY RANKING | COMPANY | SALES PER STORE PER DAY | SALES GROWTH PER STORE PER DAY THIS YEAR | SALES PERCENT INCREASE THIS YEAR OVER LAST YEAR | SALES NEEDED TO KEEP PACE WITH CPI | SALES INCREASE OR DECREASE IN CONSTANT DOLLARS |
|---|---|---|---|---|---|---|
| 1 | Southland | $2,148 | $ 145 | 7% | $2,084 | $64 |
| 2 | National Convenience | 1,453 | -25 | -2% | 1,538 | -85 |
| 3 | Circle K | 1,255 | 14 | 1% | 1,292 | -37 |
| 4 | Silcorp | 1,154 | 113 | 11% | 1,083 | 71 |
| 5 | Munford | 976 | 14 | 1% | 1,001 | -25 |
| 6 | Casey's | 934 | 8 | 1% | 963 | -29 |
| 7 | Sunshine Jr. | 699 | 38 | 6% | 687 | 12 |
| | Average | $1,690 | $122 | 5% | $1,631 | $59 |

All sales are for food stores sales only. Gasoline has been excluded, so sales are comparable among companies. To adjust to 1986 dollars, the CPI for January, 1988 was divided by the CPI for January, 1986 (333.1 divided by 347.6 equals 104.08).

## CURRENT VERSUS CONSTANT DOLLAR SALES FOR SOUTHLAND

The 1971 10K for Southland states that most stores operated from 7 a.m. to 11 p.m. The 1988 10K states the vast majority of 7-Eleven stores operated 24 hours a day. 7-Eleven's sales increased from $564 per store per day in 1971 to $738 in 1987 (in constant 1971 dollars). This is an increase of $174 or 31%. If night sales are less than 31% of total sales, 7-Eleven has a real increase in average store sales. If night sales are more than 31% of total sales, 7-Eleven has had a decrease in average store sales. It would appear Southland has had a real constant dollar sales increase of about 11%.

## PROFIT GOAL

In our first Survey in 1971, we established a profit goal for the industry. We felt $30.00 of pretax profit per store per day was a reasonable return on the amount of capital invested at that time in the average store of that time. Our $30 figure was based, however, on the value of money in 1971. Because of inflation, it takes $87.25 per store per day to equal $30 in 1971 dollars. This year Casey's averaged $77.94 per store per day in pretax profit. This amounted to $26.79 in 1971 dollars, and didn't meet our original profit goal.

**Inflation and Profit Goals**

In this report, we have used the Consumer Price Index for all urban consumers (1967 = 100) as supplied by the U. S. Department of Labor. We have used the January index. Divide the CPI for January 1988 by the CPI for January 1971; 346.7 divided by 119.2 equals 290.85; then divide the current figure by 290.85 to arrive at the constant dollar figure. In the Survey, pretax profits have decreased from an average of $14.45 per store per day in 1971 to an average loss of $10.86 adjust for inflation is only $3.73 in 1971 dollars. To follow the effect of sales and inflation, check the other schedules in the Survey.

## PROFIT VERSUS CONSUMER PRICE INDEX

| YEAR | JANUARY 1 CPI | AVERAGE PROFIT PER DAY | AVERAGE PROFIT PER DAY NEEDED TO KEEP PACE WITH CPI (CURRENT DOLLARS) | PROFIT GOAL OF $30.00 PER DAY IN CURRENT DOLLARS |
|---|---|---|---|---|
| 1971 | 119.2 | $ 14.45 | | $30.00* |
| 1972 | 123.2 | 17.73 | $14.94 | 31.02 |
| 1973 | 127.7 | 18.78 | 15.47 | 32.13 |
| 1974 | 139.7 | 19.84 | 16.93 | 35.16 |
| 1975 | 156.1 | 21.16 | 18.92 | 39.30 |
| 1976 | 166.7 | 23.94 | 20.00 | 41.94 |
| 1977 | 175.3 | 25.19 | 21.25 | 44.13 |
| 1978 | 187.2 | 27.47 | 22.69 | 47.10 |
| 1979 | 204.7 | 33.02 | 24.51 | 51.51 |
| 1980 | 233.2 | 38.18 | 28.26 | 58.68 |
| 1981 | 260.5 | 40.24 | 31.57 | 65.55 |
| 1982 | 282.5 | 51.70 | 34.24 | 71.10 |
| 1983 | 293.1 | 50.24 | 35.53 | 73.76 |
| 1984 | 299.1 | 54.21 | 36.28 | 75.29 |
| 1985 | 316.1 | 52.30 | 38.31 | 79.55 |
| 1986 | 328.4 | 53.87 | 39.80 | 82.65 |
| 1987 | 333.1 | 48.63 | 40.37 | 83.82 |
| 1988 | 346.7 | -10.86 | 42.02 | 87.25 |

*Based on First Survey

## PERTINENT INFORMATION ON STORE OPENINGS AND CLOSINGS IN THE LAST FOURTEEN YEARS

FISCAL YEARS ENDED DECEMBER 31, 1974 AND THEREAFTER

| | CIRCLE K | NATIONAL CONVENIENCE STORES | SOUTHLAND | SILCORP[3] | SUNSHINE JR. | MUNFORD | CASEY'S[1] GENERAL STORES | DAIRY MART[2] | TOTALS |
|---|---|---|---|---|---|---|---|---|---|
| Number of Stores in Fifth Survey | 947 | 801 | 4,801 | — | 215 | 1,348 | 226 | 73 | 8,411 |
| Store Closed Since 1974 | 727 | 966 | 3,807 | 106 | 168 | 1,000 | 12 | 187 | 6,973 |
| Closure Rate | 77% | 120% | 79% | — | 78% | 74% | 5% | 256% | 83% |
| Stores Opened or Acquired Since Fifth Survey | 3,857 | 1,284 | 6,824 | 172 | 269 | 345 | 439 | 1,302 | 14,492* |
| Stores in Operation in Eighteenth Survey | 4,077 | 1,119 | 7,818 | 1,049 | 316 | 705 | 653 | 1,188 | 16,925 |
| Net Store Growth | 3,130 | 318 | 3,017 | — | 101 | -643 | 427 | 1,115 | — |
| Growth on Base Year | 330% | 40% | 63% | — | 47% | -48% | 189% | 1,527% | — |

1. Casey's figures since 4/30/79.
2. Dairy Mart figures since 1/31/79.
3. Silcorp figures since 1986.

*Obviously some openings and closings have gone unrecorded. The above is our best estimate of total openings and closings.

## STORE CLOSINGS DURING THE YEAR

| DOLLARS PER DAY PROFIT RANKING | COMPANY | STORES CLOSED OR SOLD | PERCENT OF STORES OPERATED AT YEAR'S END |
|---|---|---|---|
| 1 | Casey's | 5 | 1% |
| 2 | Circle K | 255 | 6% |
| 3 | Silcorp | 48 | 5% |
| 4 | Dairy Mart | 41 | 3% |
| 5 | Sunshine Jr. | 31 | 10% |
| 6 | National Convenience | 125 | 11% |
| 7 | Munford | 87 | 12% |
| 8 | Southland | 299 | 4% |
|  | Totals | 891 | 5% |

These eight chains operated a total of 16,925 stores at the close of their last fiscal year.

1974 Fourth Annual Survey showed 172 store closings; net store growth of 1,042 stores.
1975 Fifth Annual Survey showed 244 store closings; net store growth of 928 stores.
1976 Sixth Annual Survey showed 315 store closings; net store growth of 672 stores.
1977 Seventh Annual Survey showed 464 store closings; net store growth of 360 stores.
1978 Eighth Annual Survey showed 399 store closings; net store growth of 644 stores.
1979 Ninth Annual Survey showed 755 store closings; net store growth of 323 stores.
1980 Tenth Annual Survey showed 789 store closings; net store growth of 247 stores.
1981 Eleventh Annual Survey showed 426 store closings; net store growth of 205 stores.
1982 Twelfth Annual Survey showed 595 store closings; net store growth of 107 stores.
1983 Thirteenth Annual Survey showed 463 store closings; net store growth of 266 stores.
1984 Fourteenth Annual Survey showed 559 store closings; net store growth of 1,197 stores.
1985 Fifteenth Annual Survey showed 351 store closings; net store growth 700 stores.
1986 Sixteenth Annual Survey showed 798 store closings; net store growth of 1,356 stores.
1987 Seventeenth Annual Survey shows 608 store closings; net store growth of 608 stores.
1988 Eighteenth Annual Survey shows 891 store closings; net store growth for the Surveyed chains is 828 stores.

In total, the Survey has recorded 7,829 store closings in the past fifteen years.

## STORE GROWTH SCHEDULE FOR THE YEAR

| DOLLARS PER DAY PROFIT RANKING | COMPANY | STORES PURCHASED | STORES OPENED | STORES CLOSED OR SOLD | NET STORE GROWTH |
|---|---|---|---|---|---|
| 1 | Casey's | — | 72 | 5 | 67 |
| 2 | Circle K | 473 | 352 | 255 | 570 |
| 3 | Silcorp | — | 44 | 48 | -4 |
| 4 | Dairy Mart | — | 22 | 41 | -19 |
| 5 | Sunshine Jr. | 12 | 5 | 31 | -14 |
| 6 | National Convenience | 269 | 25 | 125 | 169 |
| 7 | Munford | not given | not given | 87 | -87 |
| 8 | Southland | 39 | 406 | 299 | 146 |
|  | Totals | 793 | 926 | 891 | 828 |

## STORE CLOSINGS BY COMPANY FOR THE LAST FOURTEEN YEARS

FISCAL YEARS ENDING DECEMBER 31, 1974 AND THEREAFTER

| | | SUNSHINE JR. | SOUTHLAND | CIRCLE K | SILCORP | MUNFORD | NATIONAL CONVENIENCE | DAIRY MART | CASEY'S GENERAL STORES |
|---|---|---|---|---|---|---|---|---|---|
| 1975 | 5th | — | 142 | 12 | — | — | 71 | — | — |
| 1976 | 6th | — | 158 | 24 | — | — | 79 | — | — |
| 1977 | 7th | 3 | 154 | 24 | — | 112 | 38 | — | — |
| 1978 | 8th | 6 | 254 | 12 | — | N/A | 18 | — | — |
| 1979 | 9th | 9 | 308 | 24 | — | 273 | 29 | None | — |
| 1980 | 10th | 8 | 460 | 22 | — | 119 | 28 | 2 | — |
| 1981 | 11th | 11 | 281 | 28 | — | N/A | 42 | 2 | — |
| 1982 | 12th | 16 | 267 | 8 | — | 155 | 73 | 23 | 1 |
| 1983 | 13th | 17 | 271 | 10 | — | N/A | 92 | 11 | 1 |
| 1984 | 14th | 17 | 364 | 31 | — | 43 | 35 | 10 | 0 |
| 1985 | 15th | 16 | 224 | 33 | — | not given | 44 | 7 | 0 |
| 1986 | 16th | 7 | 339 | 95 | — | 24 | 254 | 46 | 0 |
| 1987 | 17th | 27 | 286 | 149 | 58 | not given | 38 | 45 | 5 |
| 1988 | 18th | 31 | 299 | 255 | 48 | 87 | 125 | 41 | 5 |
| Totals | | 168 | 3,807 | 727 | 106 | 813* | 966 | 187 | 12 |

*The Munford 10K states they closed 310 stores between 1982 and 1986. In January 1976 they had 1,409 stores. At various times we have counted over 1,000 store closings for Munford.

## NEW STORES PLANNED

| DOLLARS PER DAY PROFIT RANKING | COMPANY | STORES PLANNED THIS YEAR AS STATED IN THIS YEAR'S ANNUAL REPORT | ACTUAL NET NEW STORES OPENED OR ACQUIRED | STORES PLANNED AS STATED IN LAST YEAR'S ANNUAL REPORT |
|---|---|---|---|---|
| 1 | Casey's | 75 planned | 67 | 130 stores in 2 years |
| 2 | Circle K | 918 in development & acquisition | 570 | 240 in development & acquisitions |
| 3 | Silcorp | Didn't state | -4 | 40 new stores |
| 4 | Dairy Mart | 20 new stores & acquisition | -19 | 20 new stores & acquisitions |
| 5 | Sunshine Jr. | 7 pending construction | -14 | 25 stores |
| 6 | National Convenience | 7 new stores<br>23 others committed | 169 | 130 new stores |
| 7 | Munford | Not given | -87 | 40 new stores |
| 8 | Southland | Lots of activity | 146 | Didn't state |
| | Totals | 1,050 | 828 | 495 |

## STORES OWNED VERSUS LEASED
### AS NOTED IN THE ANNUAL REPORTS AND 10K'S

| DOLLARS PER DAY PROFIT RANKING | COMPANY | STORES IN OPERATION | STORES WITH REAL ESTATE OWNED | INCREASE OR DECREASE FROM LAST YEAR IN STORES OWNED | STORES LEASED |
|---|---|---|---|---|---|
| 1 | Casey's | 653 | 330 | 71 | 323 |
| 2 | Circle K | 4,077 | 399 | 248 | 3,678 |
| 3 | Silcorp | 1,049 | N/A | N/A | N/A |
| 4 | Dairy Mart | 1,188 | 112 | 14 | 1,076 |
| 5 | Sunshine Jr. | 316 | 112 | 11 | 204 |
| 6 | National Convenience | 1,119 | 387 | 102 | 732 |
| 7 | Munford | 705 | 34 | 1 | 671 |
| 8 | Southland | 7,818 | 2,157 | 114 | 5,661 |
| | Total | 16,925 | 3,531 | 561 | 12,345 |

For the seven companies reported, 78% of the stores are leased and 22% are owned.

Southland leases 1,325 stores from the Southland Employees Trust.

## INDUSTRY LEADERS IN EIGHT PUBLICLY OWNED COMPANIES

BASED ON INFORMATION FROM PROXY STATEMENTS
QUALIFICATION AS AN INDUSTRY LEADER BASED ON POSITION, SALARY, OR STOCK OWNERSHIP

| DOLLARS PER DAY PROFIT RANKING | COMPANY | NAME | AGE | POSITION | SALARY | DIFFERENCE FROM LAST YEAR | PERCENT OF OWNERSHIP | CASH DIVIDENDS ON STOCK OWNERSHIP |
|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | Donald F. Lamberti | 50 | President, Chairman | $450,000 | $ — | 20% | — |
| 2 | Circle K | Karl Eller | 60 | Chairman & CEO | 438,700 | 7,816 | 6% | $ 871,724 |
| 3 | Silcorp | Eric Findley | — | Chairman & CEO | — | — | Substantial | — |
| 4 | Dairy Mart | Charles Nirenberg | 64 | Chairman, President | 257,313 | 37,515 | 26% | None |
| 5 | Sunshine Jr. | Leona J. Lewis | 79 | Chairman | — | — | 54% | 444,926 |
| 6 | National Convenience | V.H. Van Horn | 50 | President & CEO | 345,205 | 5,374 | 3% | 156,230 |
| 7 | Munford | Dillard Munford | 69 | Chairman & CEO | 334,349 | -2,055 | 5% | 78,781 |
| 8 | Southland | John P. Thompson | 62 | Chairman | 735,583 | -122,029 | — | N/A |
|  |  | Jere W. Thompson | 56 | President & CEO | 732,250 | -62,418 | — | N/A |

# SALARY SCHEDULE OF TWO HIGHEST PAID EXECUTIVES AND OF THE BOARD OF DIRECTORS

| DOLLARS PER DAY PROFIT RANKING | COMPANY | HIGHEST PAID EXECUTIVE | $DPD COST PER STORE | SECOND HIGHEST PAID EXECUTIVE | $DPD COST PER STORE | OFFICERS & DIRECTORS AS A GROUP | $DPD COST PER STORE | NUMBER INCLUDED AS OFFICERS & DIRECTORS |
|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | $ 450,000 | $1.98 | $ 450,000 | $1.98 | $ 1,222,658 | $ 5.39 | 8 |
| 2 | Circle K | 438,700 | .33 | 175,000 | .13 | 3,097,663 | 2.36 | 33 |
| 3 | Silcorp | N/A | — | N/A | — | N/A | — | — |
| 4 | Dairy Mart | 257,313 | .59 | 174,549 | .40 | 1,010,451 | 2.32 | 11 |
| 5 | Sunshine Jr. | 189,085 | 1.58 | 79,380 | .66 | 545,318 | 4.55 | 8 |
| 6 | National Convenience | 345,205 | .91 | 216,627 | .57 | 1,820,791 | 4.81 | 11 |
| 7 | Munford | 334,349 | 1.23 | 239,374 | .87 | 1,271,718 | 4.67 | 9 |
| 8 | Southland | 735,583 | .26 | 732,250 | .26 | 7,417,542 | 2.62 | 31 |
| | Totals | $2,750,235 | $ .49 | $2,067,180 | $ .37 | $16,386,141 | $ 2.94 | 111 |
| | Average this year | $ 392,890 | $ .70 | $ 295,311 | $ .52 | $ 2,340,877 | $ 4.20 | |
| | Average last year | $ 400,527 | $ .75 | $ 302,703 | $ .56 | $ 2,444,842 | $ 4.55 | |
| | Average change from last year | $ -7,637 | $-.05 | $ -7,392 | $-.04 | $ -103,965 | $-.35 | |

## ANALYSIS OF STOCK HOLDINGS BY STOCKHOLDERS AND DIRECTORS

AS STATED IN THE COMPANY'S PROXY STATEMENT

| DOLLARS PER DAY PROFIT RANKING | COMPANY | APPROXIMATE NUMBER OF SHAREHOLDERS | STOCK OUTSTANDING RECORD DATE | NUMBER OF SHARES HELD BY LARGEST STOCKHOLDER IN PROXY | PERCENT OF OWNERSHIP | NUMBER OF SHARES HELD BY SECOND LARGEST STOCKHOLDER IN PROXY | PERCENT OF OWNERSHIP | NUMBER OF SHARES HELD BY DIRECTORS AS A GROUP | PERCENT OF OWNERSHIP BY OFFICERS & DIRECTORS AS A GROUP |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | 1,982 | 11,787,010 | 2,318,700 | 20% | 1,703,379[1] | 15% | 4,289,097[1] | 38% |
| 2 | Circle K | 5,000 | 43,272,289 | 12,728,597 | 29% | 5,132,600 | 12% | 23,857,258 | 42% |
| 3 | Silcorp | 1,682 | — | — | — | — | — | — | — |
| 4 | Dairy Mart | 2,600 | Class A<br>2,047,487 | 2,500 | — | 600 | — | 9,250 | — |
| | | | Class B<br>2,311,219 | 830,478 | 36% | 664,060 | 29% | 1,662,596 | 70% |
| 5 | Sunshine Jr. | 444 | 1,701,650 | 926,931 | 54% | 352,100[2] | 21% | 948,312 | 56% |
| 6 | National Convenience | 1,727 | 22,373,877 | 3,906,994 | 18% | 3,847,900[3] | 17% | 1,958,890 | 9% |
| 7 | Munford | 3,112 | 3,921,918 | 145,892 | 6% | 67,832 | 2% | 406,079 | 10% |

[1] Includes Casey's Employees' Plan Trust

[2] American Financial

[3] American Financial

## STOCK VALUATION SCHEDULE

| DOLLARS PER DAY PROFIT RANKING | COMPANY | BOOK VALUE END OF YEAR COVERED IN REPORT | STOCK OUTSTANDING AS OF RECORD DATE | WHERE LISTED | STOCK PRICE CLOSE 11/8/88 | MARKET VALUE OF STOCK 11/4/88 |
|---|---|---|---|---|---|---|
| 1 | Casey's | $ 62,407,954 | 11,787,010 | NASDAQ | 15 | $ 176,805,150 |
| 2 | Circle K | 283,521,000 | 43,272,289 | NY | 13⅛ | 567,948,790 |
| 3 | Silcorp | 49,906,000 | — | — | — | — |
| 4 | Dairy Mart | 29,117,851 | Class A<br>2,047,487 | NASDAQ | 10¼ | 20,986,741 |
| | | | Class B<br>2,311,219 | | 10⅝<br>9 | 24,556,701<br>45,543,442 |
| 5 | Sunshine Jr. | 23,113,150 | 1,701,650 | AMEX | 17 | 28,928,050 |
| 6 | National Convenience | 74,613,000 | 22,373,877 | NY | 9⅛ | 204,161,620 |
| 7 | Munford | 48,972,000 | 3,921,918 | NY | 16⅜ | 64,221,407 |
| 8 | Southland | (150,411,000) | — | Not Listed | — | — |

## EARNINGS AND CASH DIVIDENDS PAID PER SHARE DURING YEAR

| DOLLARS PER DAY PROFIT RANKING | COMPANY | DIVIDENDS PAID COMMON STOCK | EARNINGS | DIVIDENDS TO EARNINGS RATIO |
|---|---|---|---|---|
| 1 | Casey's | None | $ .90 | — |
| 2 | Circle K | .28 | 1.15 | 24% |
| 3 | Silcorp | .23 | .87 | 26% |
| 4 | Dairy Mart | None | .86 | — |
| 5 | Sunshine Jr. | .48 | .61 | 79% |
| 6 | National Convenience | .36 | .30 | 120% |
| 7 | Munford | .54 | .81 | 150% |
| 8 | Southland | .56 | — | — |

## RETURN ON AVERAGE SHAREHOLDER'S EQUITY

| DOLLARS PER DAY PROFIT RANKING | COMPANY | RETURN ON SHAREHOLDER'S EQUITY 1986 | RETURN ON SHAREHOLDER'S EQUITY 1987 | PERCENTAGE INCREASE OR DECREASE |
|---|---|---|---|---|
| 1 | Casey's | 16.5% | 17.7% | 7% |
| 2 | Circle K | 19.4% | 20.4% | 5% |
| 3 | Silcorp | 5.2% | 12.4% | 14% |
| 4 | Dairy Mart | 13.1% | 14.4% | 10% |
| 5 | Sunshine Jr. | 13.1% | 4.5% | -66% |
| 6 | National Convenience | — | 9.1% | — |
| 7 | Munford | 3.1% | — | — |
| 8 | Southland | 13.0% | — | — |

## COMMON STOCK PRICE RANGE AS SHOWN IN ANNUAL REPORT

| DOLLARS PER DAY PROFIT RANKING | COMPANY | HIGH | LOW | CLOSING STOCK PRICE 10/28/88 |
|---|---|---|---|---|
| 1 | Casey's | 18½ | 11⅛ | |
| 2 | Circle K | 18⅝ | 9 | |
| 3 | Silcorp—Class A | 22 | 14⅝ | N/A |
| 4 | Dairy Mart—Class A | 13¼ | 6½ | |
| 5 | Sunshine Jr. | 24¾ | 11½ | |
| 6 | National Convenience | 12⅜ | 6 | |
| 7 | Munford | 37⅞ | 12¾ | |
| 8 | Southland | 80¼ | 44 | N/A |

## INVENTORY ACCOUNTING METHOD USED

| DOLLARS PER DAY PROFIT RANKING | COMPANY | LIFO | FIFO |
|---|---|---|---|
| 1 | Casey's | X | |
| 2 | Circle K | | X |
| 3 | Silcorp | | X |
| 4 | Dairy Mart | X* | |
| 5 | Sunshine Jr. | X | |
| 6 | National Convenience | | X |
| 7 | Munford | | X |
| 8 | Southland | X | |

*Dairy Mart Gasoline Inventories are at FIFO

## ADDRESSES, TELEPHONE NUMBERS, AND DATE OF RECEIPT OF ANNUAL REPORT OF THE COMPANIES IN THE DOLLARS PER DAY SURVEY

1. The Southland Corp.
2828 North Haskell Avenue
Dallas, Texas 75221
214-828-7011
Year Ended 12/31/87

2. The Circle K Corporation
1601 North 7th Street
Phoenix, Arizona 85072-2084
602-253-9600
Year Ended 4/30/88
Annual Report Received 8/28/88

3. Casey's General Stores, Inc.
1299 N.E. Broadway Avenue
Des Moines, Iowa 50313
515-263-3700
Year Ended 4/30/88
Annual Report Received 8/17/88

4. Sunshine Jr. Stores, Inc.
17th & June Avenue
P.O. Box 2498
Panama City, Florida 32402
904-769-1661
Year Ended 12/31/87
Annual Report Received 4/16/88

5. Silcorp Limited
6205 Airport Road
Mississauga, Ontario, Canada L4V 1E1
Year Ended 12/27/87
Annual Report Received 3/24/88

6. Munford, Inc.
1860 Peachtree Road, N.W.
Atlanta, Georgia 30309
404-352-6641
Year Ended 12/31/87
Annual Report Received 4/11/88

7. Dairy Mart
240 South Road
Enfield, Connecticut 06082
203-745-3611
Year Ended 1/30/88
Annual Report Received 5/88

8. National Convenience Stores
100 Waugh Drive
Houston, Texas 77007
713-863-2200
Year Ended 6/30/88
Annual Report Received 10/1/88

Year Covered:

This report covers the latest fiscal year reported by each of the chains. Years included in the Survey range from Silcorp's fiscal years ending December 27, 1987, to National Convenience Stores' fiscal year, which ended June 30, 1988. The annual reports for the years were received by the stockholders, beginning with Silcorp's and ending with National Convenience's report which was received on October 1, 1988. This schedule shows the date each company's fiscal year ended, as well as the date the reports were received by the stockholders.

## THE EFFECT OF SOUTHLAND ON THE SURVEY
## PROFIT COMPARISON: SOUTHLAND VERSUS THE SEVEN OTHER COMPANIES

Southland operates 46% of the stores included in the Survey. They make 66% of all the store sales of chains in the Survey. Since their results heavily affect the total results for the Survey, this chart shows the totals as they would appear if Southland were excluded.

| | STORES | STORE DAYS | CONVENIENCE STORE SALES | AVERAGE SALES PER STORE PER DAY | SALES GROWTH PER STORE PER DAY | PRETAX PROFIT | AFTER TAX PROFIT | AFTER TAX PROFIT AS A PERCENT OF SALES | PRETAX PROFIT PER STORE PER DAY |
|---|---|---|---|---|---|---|---|---|---|
| Seven Companies Without Southland | 9,107 | 3,129,709 | $3,130,101,584 | $1,196 | $ 61 | $117,509,007 | $ 85,034,622 | 2.72% | $ 37.54 |
| Southland | 7,818 | 1,313,611 | 6,072,631,000 | 2,148 | 115 | 182,201,450 | -63,100,900 | N/A | -64.45 |
| Eight Companies Including Southland | 16,925 | 11,443,320 | 9,202,732,508 | 2,071 | 000 | 000,000,000 | 21,933,722 | 0.24% | 00.00 |

Average Daily Sales for the other companies is figured without Dairy Mart sales and Store Days without Casey's Franchise Sales and Store Days.

## SOUTHLAND COMPARED WITH OTHER PUBLICLY-OWNED COMPANIES IN THE SURVEY

ON A DOLLARS OF PROFIT PER SHARE PER DAY BASIS

| | 1971 FIRST SURVEY | 1975 FIFTH SURVEY | 1980 TENTH SURVEY | 1981 ELEVENTH SURVEY | 1982 TWELFTH SURVEY | 1983 THIRTEENTH SURVEY | 1984 FOURTEENTH SURVEY | 1985 FIFTEENTH SURVEY | 1986 SIXTEENTH SURVEY | 1987 SEVENTEENTH SURVEY | 1988 EIGHTEENTH SURVEY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Other Companies Without Southland | $11.44 | $17.28 | $38.10 | $32.44 | $40.15 | $38.63 | $52.54 | $54.07 | $44.05 | $38.82 | $ 37.54 |
| Southland | 17.15 | 25.45 | 38.42 | 46.44 | 60.67 | 59.34 | 55.58 | 50.80 | 63.99 | 59.19 | -64.45 |
| Southland's Performance Above or Below the Average | 5.71 | 8.17 | .32 | 14.00 | 20.52 | 20.71 | 3.04 | -3.27 | 19.94 | 20.37 | -101.99 |
| $DPD Survey Average — All Companies | 14.45 | 21.16 | 38.18 | 40.24 | 51.70 | 50.24 | 54.24 | 52.30 | 53.87 | 48.63 | -10.86 |
| Southland | 17.15 | 25.45 | 38.42 | 46.44 | 60.67 | 59.34 | 55.58 | 50.80 | 63.99 | 59.19 | -64.45 |
| Southland's Performance Above the Average | 2.70 | 4.29 | .24 | 6.20 | 8.97 | 9.10 | 1.34 | -1.50 | 10.12 | 10.56 | -53.59 |

# ELECTRICAL COSTS IN THE HEADQUARTER CITIES OF THE DPD FIRMS

| CITY | POWER COMPANY | COMPANIES HEADQUARTERED | 1982 KWH COST | 1985 KWH COST | 1987 KWH COST | 1988 KWH COST | KWH COST (1988 OVER 1987) | 1982 AVERAGE MONTHLY ELECTRIC BILL | 1985 AVERAGE MONTHLY ELECTRIC BILL | 1987 AVERAGE MONTHLY ELECTRIC BILL | 1988 AVERAGE MONTHLY ELECTRIC BILL | 1982 $DPD COST OF ELECTRICITY | 1985 $DPD COST OF ELECTRICITY | 1987 $DPD COST OF ELECTRICITY | 1988 $DPD COST OF ELECTRICITY | $DPD OF ELECTRICITY INCREASE 1988 OVER 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 Jacksonville, Florida | Jacksonville Electric Authority | Lil' Champ | 7.9 | — | — | — | — | $1,185 | $ — | $ — | $ — | $39.50 | $ — | $ — | $ — | $ — |
| 2 Atlanta, Georgia | Georgia Power Authority | Munford | 7.3 | 7.8 | 7.6 | 8.6 | 1.0 | 1,095 | 1,176 | 1,142 | 1,286 | 36.50 | 39.20 | 38.07 | 42.87 | 4.80 |
| 3 Tampa, Florida | Tampa Electric Company | Shop & Go | 7.2 | 7.0 | 7.9 | 8.2 | .3 | 1,080 | 1,050 | 1,185 | 1,230 | 36.00 | 35.00 | 39.50 | 41.00 | 1.50 |
| 4 Tampa, Florida | Tampa Electric Company | Little General | 7.2 | 7.0 | 7.9 | 8.2 | .3 | 1,080 | 1,050 | 1,185 | 1,230 | 36.00 | 35.00 | 39.50 | 41.00 | 1.50 |
| 5 Miami, Florida | Florida Power & Light | Mini Mart | 6.7 | — | — | — | — | 1,080 | — | — | — | 32.50 | — | — | — | — |
| 6 Dallas, Texas | Dallas Power & Light | Seven Eleven | 6.4 | 6.2 | 6.5 | 5.7 | -.8 | 960 | 936 | 973 | 852 | 32.00 | 31.20 | 32.43 | 28.40 | 4.03 |
| 7 Houston, Texas | Houston Lighting & Power | National |  |  |  |  |  | 885 | 1,046 | 920 | 920 | 29.50 | 34.87 | 30.67 | 30.67 | — |
|  |  | Convenience Stores | 5.9 | 7.0 | 6.1 | 6.1 | — | 870 | 1,018 | 937 | 948 | 27.00 | 33.93 | 31.23 | 31.60 | .37 |
| 8 Panama City, Florida | Gulf Power Company | Sunshine Jr. | 5.8 | 6.8 | 6.2 | 6.3 | .1 | 870 | 1,234 | 1,304 | 1,325 | 29.00 | 41.13 | 43.47 | 44.17 | .70 |
| 9 Phoenix, Arizona | Salt River Project | Circle K | 5.8 | 8.2 | 8.7 | 8.8 | .1 | 780 | 1,081 | 1,053 | 1,061 | 26.00 | 36.03 | 35.10 | 35.37 | .27 |
| 10 Louisville, Kentucky | Louisville Gas & Electric | CONNA | 5.2 | 7.2 | 7.0 | 7.1 | .1 | N/A | 1,240 | 1,170 | 1,109 | N/A | 41.33 | 39.00 | 36.97 | -2.03 |
| 11 Des Moines, Iowa | Iowa Power | Casey's General Stores | N/A | 8.3 | 7.8 | 7.4 | -.4 | N/A | 1,443 | 1,240 | 1,342 | N/A | 48.10 | 41.33 | 44.73 | 3.40 |
| 12 Enfield, Connecticut | Northeast Utilities | Dairy Mart | N/A | 9.6 | 8.3 | 8.9 | .6 | 981 | 1,127 | 1,111 | 1,130 | 32.70 | 37.58 | 37.03 | 37.68 | .65 |
| Averages |  |  | 6.52 | 7.51 | 7.46 | 7.53 | .13 |  |  |  |  |  |  |  |  |  |

Percentage increase in the cost of electricity for the chains in the Survey last year was 1.5%.

Each increase of 1 cent a KWH increases the dollars per day of the cost of store operations by $5.00. Unless sales are increased, it would thus reduce profits by $5.00 a day or $1,825 a year. If a chain paid 8.9 cents per KWH for all of its electricity, its cost of operation over a chain paying 5.7 cents for all its kilowatts would be $16.00 a day higher. It would have a $5,760 higher yearly operating cost.

# THE SEVENTEENTH ANNUAL DOLLARS PER DAY SURVEY

## THE CONVENIENCE STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

| DOLLARS PER DAY RANKING | COMPANY | YEAR ENDED | NUMBER OF STORES | STORE DAYS | SMALL FOOD STORE SALES | AVERAGE SALES PER STORE PER DAY | SALES INCREASE PER STORE PER DAY | PERCENT OF SALES INCREASE IN $DPD SALES | PRETAX PROFIT | INVENTORY VALUATION METHOD | AFTER TAX PROFIT | AFTER TAX PROFIT AS A PERCENT OF STORE SALES | PROFIT PER STORE PER DAY PRETAX | PROFIT PER STORE PER DAY AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | 4-30-87 | 586 | 204,432 | $115,266,017 | $926 | $75 | 9% | $17,003,000 | LIFO | $8,609,000 | —[1] | $83.17 | $42.11 |
| 2 | Circle K | 4-30-87 | 3,507 | 1,255,485 | 1,558,200,000 | 1,241 | 20 | 2% | 94,296,000 | FIFO | 49,430,000 | 3.17% | 75.18 | 39.37 |
| 3 | Southland | 12-31-86 | 7,672 | 2,772,434 | 5,638,352,000 | 2,003 | 140 | 7% | 164,106,000 | LIFO | 133,746,390 | 2.37% | 59.19 | 48.24 |
| 4 | Sunshine Jr. | 12-26-86 | 330 | 121,950 | 80,560,000 | 661 | 13 | 2% | 5,529,460 | LIFO | 2,889,350 | 3.59% | 41.57 | 21.73 |
| 5 | Munford | 1-1-87 | 792 | 298,298 | 286,941,540 | 962 | -48 | -5% | 8,071,000 | FIFO | 4,439,050 | 1.55% | 27.05 | 14.88 |
| 6 | Silcorp | 12-28-86 | 1,053 | 384,434 | 403,353,470 | 1,041 | 63 | 6% | 4,848,660 | FIFO | 1,681,920 | .42% | 12.51 | 4.33 |
| 7 | Dairy Mart | 1-31-87 | 1,207 | 369,863 | 424,782,257 | 1,148 | 1 | — | -4,049,735 | LIFO[2] | -3,515,735 | — | -10.95 | -9.51 |
| 8 | National Convenience | 6-30-87 | 950 | 348,214 | 515,000,000 | 1,478 | 81 | 6% | -9,898,000 | FIFO | -5,445,000 | — | -28.42 | -15.64 |
| Totals & Averages | | | 16,097 | 5,755,110 | $9,022,455,284 | $1,568 | $ -18 | -1% | $279,906,385 | | $191,834,975 | 2.13% | $48.63 | $33.33 |

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,273,749,876.
Total sales for both food and gasoline were $12,296,205,160.

[1] Casey's store sales for company operated stores only.
[2] Some of Dairy Mart Inventories at FIFO

# THE SIXTEENTH ANNUAL DOLLARS PER DAY SURVEY

## THE CONVENIENCE STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

| DOLLARS PER DAY RANKING | COMPANY | YEAR ENDED | NUMBER OF STORES | STORE DAYS | SMALL FOOD STORE SALES | AVERAGE SALES PER STORE PER DAY | SALES INCREASE PER STORE PER DAY | PERCENT OF SALES INCREASE IN $DPD SALES | PRETAX PROFIT | INVENTORY VALUATION METHOD | AFTER TAX PROFIT | AFTER TAX PROFIT AS A PERCENT OF STORE SALES | PROFIT PER STORE PER DAY PRETAX | PROFIT PER STORE PER DAY AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Southland | 12-31-85 | 7,519 | 2,736,017 | $5,181,300,000 | $1,893 | $120 | 7% | $175,082,860 | LIFO | $131,819,880 | 2.54% | $63.99 | $48.17 |
| 2 | Circle K | 4-30-86 | 3,372 | 1,120,429 | 1,368,367,000 | 1,221 | 5 | — | 70,642,000 | LIFO | 39,766,000 | 2.90% | 63.04 | 35.49 |
| 3 | Casey's | 4-30-86 | 547 | 185,384[1]<br>102,534* | 87,357,154* | 851 | 37 | 5% | 10,825,659 | LIFO | 6,248,659 | —* | 58.39 | 33.70 |
| 4 | Sunshine Jr. | 12-26-85 | 340 | 123,032 | 79,700,000 | 648 | -3 | — | 4,448,726 | LIFO | 2,258,640 | 2.83% | 33.62 | 17.35 |
| 5 | CONNA | 5-25-86 | 368 | 138,502 | 231,507,000 | 1,671 | -36 | -2% | 3,332,000 | FIFO | 2,203,000 | .95% | 24.05 | 15.90 |
| 6 | Munford | 1-02-86 | 837 | 304,304 | 307,264,784 | 1,010 | 79 | 8% | 7,046,000 | FIFO | 5,319,730 | 1.73% | 23.15 | 17.48 |
| 7 | Dairy Mart | 1-31-86 | 933 | 170,750 | 269,830,601 | 1,580 | 433 | 38% | 3,645,000 | LIFO | 2,217,000 | .82% | 21.34 | 12.98 |
| 8 | National Convenience | 6-30-86 | 958 | 402,996 | 563,000,000 | 1,397 | 4 | — | 4,152,000 | FIFO | 3,582,000 | .64% | 10.30 | 8.88 |
| Totals & Averages | | | 14,874 | 5,181,414 | $8,088,326,539 | $1,586 | $ 77 | 5.1% | $279,174,245 | | $193,414,909 | 2.39% | $53.87 | $37.32 |

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,810,186,189.
Total sales for both food and gasoline were $11,898,512,728.

[1] Store days for all stores.
*Casey's store sales for company operated stores only.

## THE FIFTEENTH ANNUAL DOLLARS PER DAY SURVEY

### THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

| DOLLARS PER DAY RANKING | COMPANY | YEAR ENDED | NUMBER OF STORES | STORE DAYS | SMALL FOOD STORE SALES | AVERAGE SALES PER STORE PER DAY | SALES INCREASE PER STORE PER DAY | PERCENT OF SALES INCREASE IN $DPD SALES | PRETAX PROFIT | INVENTORY VALUATION METHOD | AFTER TAX PROFIT | AFTER TAX PROFIT AS A PERCENT OF STORE SALES | PROFIT PER STORE PER DAY PRETAX | PROFIT PER STORE PER DAY AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Shop & Go | 3-25-85 | 446 | 159,432 | $ 185,584,000 | $1,164 | $118 | 11% | $ 18,617,373 | LIFO | $10,204,832 | 5.50% | $116.77 | $64.00 |
| 2 | Circle K | 4-30-85 | 2,669 | 896,488 | 1,090,042,000 | 1,216 | 77 | 7% | 59,090,000 | LIFO | 33,421,000 | 3.06% | 65.91 | 37.27 |
| 3 | National Convenience Stores | 6-30-85 | 1,130 | 403,484 | 561,900,000 | 1,393 | 26 | 2% | 23,538,000 | FIFO | 15,509,000 | 2.76% | 58.33 | 38.43 |
| 4 | Southland | 12-31-84 | 7,473 | 2,703,276 | 4,793,890,000 | 1,773 | 117 | 7% | 137,335,970 | LIFO | 127,722,440 | 2.66% | 50.80 | 47.24 |
| 5 | Casey's | 4-30-85 | 482 | 165,865<br>83,015* | 67,577,550* | 814 | 8 | 1% | 7,423,000 | LIFO | 4,143,000 | —* | 44.75 | 24.98 |
| 6 | Sunshine Jr. | 12-27-84 | 336 | 123,942 | 80,673,117 | 651 | 93 | 16% | 3,491,352 | LIFO | 2,065,483 | 2.56% | 28.16 | 16.66 |
| 7 | Munford | 1-3-85 | 835 | 324,770 | 302,543,640 | 931 | 86 | 10% | 8,025,500 | FIFO | 5,601,799 | 1.85% | 24.71 | 17.24 |
| 8 | Dairy Mart | 1-31-85 | 200 | 68,808 | 78,946,265 | 1,147 | -47 | -4% | 1,650,035 | LIFO | 1,292,035 | 1.63% | 23.98 | 18.78 |
| 9 | CONNA | 5-26-85 | 393 | 145,236 | 247,995,000 | 1,707 | 97 | 6% | 1,896,000 | FIFO | 948,000 | .38% | 13.05 | 6.52 |
| Totals & Averages | | | 13,964 | 4,991,301<br>4,908,451* | $7,409,151,572 | $1,509 | $ 96 | 6.8% | $261,067,230 | | $200,907,589 | 2.71% | $52.30 | $40.25 |

Sales shown on this schedule are for food stores only. All gasoline sales have been excluded.
Gasoline sales for the year were $3,582,304,786.
Total sales for both food and gasoline were $10,991,456,358.
*Casey's store sales for company operated stores only.

# TENTH ANNUAL DOLLARS PER DAY SURVEY—1981

## THE SMALL FOOD STORE BUSINESS RANKED BY DOLLARS OF PROFIT PER STORE PER DAY

| $DPD RANKING | COMPANY | YEAR ENDED | # OF STORES | STORE DAYS | SMALL FOOD STORE SALES | AVERAGE SALES PER STORE PER DAY | SALES INCREASE PER STORE PER DAY | PRETAX PROFIT | INVENTORY VALUATION METHOD | AFTER TAX PROFIT | AFTER TAX PROFIT AS A % OF SALES | PROFIT PER STORE PER DAY PRETAX | PROFIT PER STORE PER DAY AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | Circle K | 4/30/80 | 1,200 | 431,514 | $ 381,203,000 | $ 883 | $ 84 | $ 31,703,000 | FIFO | $ 16,948,000 | 4.45% | $73.47 | $39.28 |
| 2. | Shop & Go | 4/03/80 | 381 | 140,609 | 108,651,170 | 771 | 84 | 8,535,351 | LIFO | 4,476,110 | 4.12 | 60.70 | 31.83 |
| 3. | National Convenience Stores | 6/30/80 | 817 | 296,192 | 306,929,000 | 1,036 | 117 | 13,295,000 | FIFO | 8,050,000 | 2.62 | 44.88 | 27.18 |
| 4. | Lil' Champ | 5/03/80 | 138 | 49,710 | 30,446,909 | 612 | 68 | 2,195,618 | LIFO-Gas<br>FIFO-Stores | 1,172,958 | 3.85 | 44.17 | 23.60 |
| 5. | Dillon | 6/28/80 | 324 | 114,478 | 178,117,909 | 1,566* | 219 | 5,000,801 | LIFO | 3,133,502 | 1.76* | 43.68 | 27.37 |
| 6. | CONNA | 5/25/80 | 336 | 118,664 | 182,559,000 | 1,538 | 107 | 4,751,246 | FIFO | 2,517,246 | 1.39 | 40.04 | 21.21 |
| 7. | Southland | 12/31/79 | 6,805 | 2,446,127 | 2,658,708,000 | 1,087 | 137 | 93,991,938 | LIFO | 68,815,350 | 2.59 | 38.42 | 28.13 |
| 8. | UtoteM | 2/29/80 | 927 | 339,282 | 280,296,000 | 826 | 97 | 11,099,332 | FIFO | 5,721,287 | 2.04 | 32.71 | 16.86 |
| 9. | Sunshine Jr. | 12/31/79 | 336 | 118,980 | 59,729,229 | 502 | 32 | 3,691,867 | FIFO | 2,006,898 | 1.96 | 31.03 | 16.86 |
| 10. | Little General | 12/29/79 | 464 | 168,896 | 141,487,000 | 838 | 155 | 4,342,056 | FIFO | 2,171,028 | 1.54 | 25.71 | 12.85 |
| 11. | Hop-In | 6/30/80 | 140 | 49,776 | 37,260,652 | 749 | 35 | 1,193,129 | LIFO-Gas<br>FIFO-Stores | 728,129 | 1.95 | 23.97 | 14.63 |
| 12. | Mini Mart | 8/31/79 | 115 | 41,975 | 28,690,752 | 684 | 119 | 787,684 | FIFO | 470,684 | 1.64 | 18.77 | 11.21 |
| 13. | Munford | 1/03/80 | 1,184 | 439,264 | 257,586,000 | 586 | 57 | 977,000 | FIFO | 586,590 | .23 | 2.22 | 1.34 |
| | | | 13,167 | 4,755,467 | $4,651,664,621 | $ 978 | 119 | $181,564,022 | | $116,797,782 | 2.51% | $38.18 | $24.56 |

## DOLLARS PER DAY SURVEY—FIFTH ANNUAL REPORT 1976

### CONVENIENCE STORE INDUSTRY RANKED BY PROFIT PER DAY

| COMPANY | YEAR ENDED | STORES | STORE DAYS | CONVENIENCE STORE SALES | AVG. SALES PER DAY PER STORE | PRETAX PROFIT | AFTER TAX PROFIT | AFTER TAX PROFIT AS % OF SALES | PROFIT PER DAY PRETAX | PROFIT PER STORE AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|
| Li'l Champ | 5/3/75 | 94 | 32,270 | $ 17,447,409 | $541 | $ 1,178,177 | $ 621,543 | 3.56% | $36.50 | $19.26 |
| Shop & Go | 3/31/75 | 240 | 74,860 | 49,967,000 | 667 | 2,718,806 | 1,437,009 | 2.88 | 36.31 | 19.19 |
| Sunshine Jr. | 12/31/74 | 215 | 71,923 | 36,485,504 | 507 | 2,214,055 | 1,173,446 | 3.21 | 30.78 | 16.31 |
| Hop-In | 6/30/75 | 36 | 11,502 | 8,778,135 | 763 | 347,617 | 206,726 | 2.36 | 30.22 | 17.97 |
| UtoteM | 2/28/75 | 922 | 307,410 | 153,883,813 | 501 | 7,865,006 | 4,247,100 | 2.75 | 25.58 | 13.82 |
| Southland | 12/31/74 | 5,171 | 1,820,075 | 1,289,000,000 | 708 | 46,326,044 | 23,000,246 | 1.78 | 25.45 | 12.64 |
| Circle K | 4/30/75 | 1,024 | 359,746 | 228,325,795 | 634 | 9,051,035 | 4,718,035 | 2.06 | 25.15 | 13.11 |
| Con. Ind. | 5/25/75 | 218 | 71,344 | 68,276,208 | 957 | 1,353,000 | 677,853 | .99 | 18.96 | 9.50 |
| Little General | 12/28/74 | 550 | 196,014 | 93,073,758 | 474 | 2,921,742 | 1,460,871 | 1.57 | 14.90 | 7.45 |
| Munford | 1/ 2/75 | 1,348 | 472,108 | 199,984,440 | 423 | 5,671,129 | 3,151,633 | 1.58 | 12.01 | 6.68 |
| Stop-N-Go | 6/26/75 | 168 | 56,784 | 49,612,731 | 874 | 486,174 | 244,174 | .49 | 8.56 | 4.30 |
| Natl. Con. | 7/30/75 | 801 | 292,365 | 196,226,000 | 671 | 1,717,000 | 1,259,000 | .64 | 5.87 | 4.30 |
| Dillon | 6/28/75 | 188 | 67,340 | 50,557,217 | 751 | (724,916) | (395,659) |  | (10.76) | (5.87) |
| Totals |  | 10,975 | 3,833,741 | $2,441,618,010 | $636 | $81,124,869 | $41,801,977 | 1.71% | $21.16 | $10.90 |

## DOLLARS PER DAY SURVEY—FIRST ANNUAL REPORT 1972

### CONVENIENCE STORE INDUSTRY RANKED BY PROFIT PER DAY

| COMPANY | YEAR ENDED | STORES | STORE DAYS | CONVENIENCE STORE SALES | AVG. SALES PER DAY PER STORE | PRETAX PROFIT | AFTER TAX PROFIT | AFTER TAX PROFIT AS % OF SALES | PROFIT PER DAY PRETAX | PROFIT PER STORE AFTER TAX |
|---|---|---|---|---|---|---|---|---|---|---|
| Circle K | 4/30/71 | 536 | 175,074 | $ 93,607,624 | $535 | $ 5,846,536 | $ 2,895,815 | 3.09% | $33.39 | $16.54 |
| Sunshine Jr. | 12/31/70 | 98 | 31,766 | 11,753,761 | 370 | 614,711 | 321,494 | 2.73 | 19.35 | 10.12 |
| Southland | 12/31/70 | 3,734 | 1,327,056 | 748,949,792 | 564 | 22,757,874 | 11,283,353 | 1.50 | 17.15 | 8.50 |
| UtoteM | 2/28/71 | 496 | 167,936 | 65,579,870 | 391 | 2,636,864 | 1,276,689 | 1.95 | 15.70 | 7.60 |
| Dillon | 7/ 3/71 | 98 | 30,856 | 17,140,222 | 555 | 244,336 | 122,168 | .71 | 7.27 | 3.95 |
| Natl. Con. | 6/30/71 | 487 | 172,113 | 72,000,000 | 418 | 1,220,101 | 760,101 | 1.05 | 7.09 | 4.41 |
| Little General | 12/26/70 | 497 | 181,405 | 61,721,000 | 340 | 1,152,370 | 576,185 | .93 | 6.35 | 3.18 |
| Jackson-Atl | 1/ 2/71 | 928 | 338,720 | 103,900,023 | 307 | 1,985,471 | 981,148 | .94 | 5.86 | 2.90 |
| Con. Ind. | 5/31/71 | 160 | 50,005 | 51,220,004 | 877 | 33,300 | 24,600 | .05 | 2.04 | 1.02 |
| Stop-N-Go | 7/ 1/71 | 140 | 48,188 | 23,757,906 | 493 | (45,058) | (23,058) | (.97) | (.94) | (.48) |
| Totals |  | 7,151 | 2,523,119 | $1,249,660,202 | $495 | $36,446,505 | $18,218,495 | 1.45% | $14.45 | $ 7.22 |

## HISTORICAL SUMMARY: CIRCUIT CITY STORES, INC.

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 2/28/83 | 2/29/84 | 2/28/85 | 2/28/86 | 2/28/87 | 2/29/88 |
| **CIRCUIT CITY**<br>**Richmond, Virginia** | | | | | | |
| Number of Stores | 101 | 98 | 93 | 69 | 87 | 105 |
| Net Store Growth in Year | 4 | -3 | -5 | -24 | 18 | 18 |
| % Store Growth in Year | 4% | -3% | -5% | -26% | 26% | 21% |
| Store Operating Days | 36,133 | 36,414 | 34,855 | 29,553 | 28,461 | 35,136 |
| Sales Per Day Per Store | $6,805 | $9,796 | $14,896 | $23,872 | $35,511 | $38,434 |
| Sales Growth $DPD | $1,830 | $2,991 | $5,100 | $8,976 | $11,639 | $2,923 |
| Sales Growth % on DPD Basis | 37% | 44% | 52% | 60% | 49% | 8% |
| Profit Per Day Per Store Pre Tax | $254 | $613 | $1,090 | $1,354 | $2,512 | $2,538 |
| Pretax Profit % on Sales | 3.7% | 6.3% | 7.3% | 5.7% | 7.1% | 6.6% |
| Gross Margin % | 28.1% | 28.8% | 28.6% | 28.3% | 28.8% | 28.8% |
| Profit Per Day Per Store After Tax | $224 | $337 | $390 | $745 | $1,240 | $1,434 |
| After Tax Profit % on Sales | 2.2% | 3.4% | 3.9% | 3.1% | 3.5% | 3.7% |
| Return on Average Stockholder Equity | 23.4% | 28.9% | 29.3% | 22.0% | 27.3% | 28.7% |
| Total Sales | $245,914,000 | $356,708,000 | $519,214,000 | $705,490,000 | $1,010,692,000 | $1,350,425,000 |
| Average Sales Per Store Per Year | $2,483,825 | $3,575,540 | $5,437,040 | $8,713,280 | $12,961,515 | |
| Total Pretax Profit | $9,207,000 | $22,309,000 | $38,009,000 | $40,021,000 | $71,500,000 | $89,200,000 |
| Total After Tax Profit | $5,507,000 | $12,009,000 | $20,234,000 | $22,021,000 | $35,300,000 | $50,400,000 |

*Continued on next page.*

## HISTORICAL SUMMARY: CIRCUIT CITY STORES, INC.

*(Continued)*

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 2/28/83 | 2/29/84 | 2/28/85 | 2/28/86 | 2/28/87 | 2/29/88 |
| Earnings Per Share Last 12 Months | — | — | $.97 | $.99 | $1.58 | $2.25 |
| Net Working Capital | $— | $21,761,000 | $71,126,000 | $56,619,000 | $97,320,000 | $149,146,000 |
| Cash & Equivalent | $— | $21,761,000 | $45,230,000 | $5,124,000 | $33,728,000 | $43,867,000 |
| Debt to Worth | — | 1.26 | 1.15 | 1.18 | 1.42 | 1.15 |
| Sales per Square foot of Selling Space | $704 | $989 | $1,371 | $1,384 | $1,489 | $1,540 |

Type of Operation: Electronic Superstores

## HISTORICAL SUMMARY: CLAIRE'S STORES, INC.

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 1/29/83 | 1/28/84 | 2/2/85 | 2/01/86 | 1/31/87 | 1/30/88 |
| **CLAIRE'S STORES Miami, Florida** | | | | | | |
| Number of Stores | 178 | 195 | 243 | 326 | 439 | 555 |
| Net Store Growth in Year | 6 | 17 | 48 | 83 | 113 | 116 |
| % Store Growth in Year | 3% | 10% | 25% | 34% | 35% | 26% |
| Store Operating Days | 63,700 | 67,886 | 80,787 | 103,588 | 139,230 | 180,908 |
| Sales Per Day Per Store | $416 | $531 | $691 | $719 | $626 | $571 |
| Sales Growth $DPD | $29 | $115 | $160 | $28 | -$93 | $-55 |
| Sales Growth % on DPD Basis | 7% | 28% | 30% | 4% | -13% | -8% |
| Profit Per Day Per Store Pre Tax | $19 | $81 | $157 | $133 | $75 | $52 |
| Pretax Profit % on Sales | 4.6% | 15.3% | 22.7% | 18.5% | 11.9% | 9.0% |
| Gross Margin % | 46.3% | 50.0% | 52.8% | 49.4% | 49.5% | 51.8% |
| Profit Per Day Per Store After Tax | $17 | $58 | $82 | $72 | $38 | $34 |
| After Tax Profit % on Sales | 4.1% | 11.0% | 11.8% | 10.0% | 6.1% | 6.0% |
| Return on Average Stockholder Equity | -% | 47.3% | 51.0% | 40.6% | 24.3% | 24.0% |
| Total Sales | $26,488,000 | $36,048,000 | $55,895,000 | $74,456,000 | $87,205,436 | $103,404,000 |
| Average Sales Per Store Per Year | $151,424 | $193,284 | $252,215 | $261,716 | $227,864 | $208,415 |
| Total Pretax Profit | $1,210,000 | $5,513,000 | $12,722,000 | $13,770,000 | $10,415,000 | $9,358,000 |

*Continued on next page.*

## HISTORICAL SUMMARY: CLAIRE'S STORES, INC.

*(Continued)*

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | | | YEAR ENDED | | | |
| | 1/29/83 | 1/28/84 | 2/2/85 | 2/01/86 | 1/31/87 | 1/30/88 |
| Total After Tax Profit | $1,090,000 | $3,969,000 | $6,600,000 | $7,479,000 | $5,323,000 | $6,230,000 |
| Earnings Per Share Last 12 Months | $.05 | $.24 | $.40 | $.45 | $.33 | $.31 |
| Net Working Capital | $(441,000) | $3,546,000 | $6,088,000 | $3,062,000 | $(831,000) | $5,337,000 |
| Cash & Equivalent | — | $5,610,896 | $6,304,783 | $1,419,567 | $1,381,546 | $1,316,000 |
| Debt to Worth | — | .89 | .54 | .63 | .70 | .81 |
| # of Employees | — | — | 1,400 | 2,000 | 3,500 | — |
| Sales Per Square Foot | $176 | $225 | $297 | $308 | $268 | $247 |

Type of Operation: Cosmetic Jewelry

# HISTORICAL SUMMARY: GIANT FOOD, INC.

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 2/26/83 | 2/25/84 | 2/23/85 | 2/22/86 | 2/28/87 | 2/27/88 |
| **GIANT FOOD, INC.<br>Washington, D.C.** | | | | | | |
| Number of Stores | 130 | 131 | 131 | 136 | 141 | 144 |
| Net Store Growth in Year | — | 1 | 0 | 5 | 5 | 3 |
| % Store Growth in Year | — | — | — | 4% | 4% | 2% |
| Store Operating Days | 47,320 | 47,502 | 47,684 | 48,594 | 51,381 | 51,870 |
| Sales Per Day Per Store | $39,141 | $41,207 | $44,853 | $46,244 | $49,210 | $52,463 |
| Sales Growth $DPD | $3,001 | $2,066 | $3,646 | $1,391 | $2,966 | $3,253 |
| Sales Growth % on DPD Basis | 8% | 5% | 9% | 3% | 6% | 7% |
| Profit Per Day Per Store Pre Tax | $1,427 | $1,541 | $1,729 | $2,111 | $1,815 | $2,539 |
| Pretax Profit % on Sales | 3.6% | 3.7% | 3.9% | 4.6% | 3.7% | 4.8% |
| Gross Margin % | 26.3% | 27.5% | 28.0% | 28.9% | 28.3% | 28.9% |
| Profit Per Day Per Store After Tax | $786 | $853 | $948 | $1,173 | $904 | $1,456 |
| After Tax Profit % on Sales | 2.0% | 2.1% | 2.1% | 2.5% | 1.8% | 2.8% |
| Return on Average Stockholder Equity | 25.3% | 22.8% | 21.4% | 23% | 16% | 23% |
| Total Sales | $1,852,134,000 | $1,957,435,000 | $2,138,789,000 | $2,247,218,000 | $2,528,492,000 | $2,721,260,000 |
| Average Sales Per Store Per Year | $14,286,465 | $15,040,555 | $16,371,345 | $16,832,816 | $17,961,650 | $19,096,532 |
| Total Pretax Profit | $67,526,000 | $73,246,000 | $82,428,000 | $102,595,000 | $93,266,000 | $131,725,000 |
| Total After Tax Profit | $37,213,000 | $40,511,000 | $45,221,000 | $57,003,000 | $46,453,000 | $75,572,000 |

*Continued on next page.*

## HISTORICAL SUMMARY: GIANT FOOD, INC. WASHINGTON, D.C.

*(Continued)*

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | | | YEAR ENDED | | | |
| | 2/26/83 | 2/25/84 | 2/23/85 | 2/22/86 | 2/28/87 | 2/27/88 |
| Earnings Per Share Last 12 Months | $1.27 | $1.38 | $1.53 | $1.90 | $1.55 | $2.51 |
| Net Working Capital | $47,136,000 | $56,969,000 | $68,415,000 | $62,897,000 | $78,534,000 | $125,160,000 |
| Cash & Equivalents | $88,091,000 | $84,237,000 | $95,904,000 | $92,481,000 | $105,611,000 | $147,609,000 |
| Debt to Worth | 1.79 | 1.48 | 1.36 | 1.29 | 1.53 | 1.49 |
| Gross Square Foot of Store Space | 4,316,000 | 4,396,000 | 4,419,000 | 4,590,000 | 4,968,000 | 5,211,000 |
| Sales per Square Foot | $429 | $445 | $484 | $490 | $509 | $522 |

Type of Operation: Supermarket

Giant operated 33 "Pants Corrals" in 1983. In fiscal 1986 these units were sold and/or closed. The results of this operation are included in the figures shown on this schedule.

## HISTORICAL SUMMARY: THE LIMITED

Data Taken from the Annual Report
and 10 K for the Year Ended

**THE LIMITED**
**Columbus, Ohio**
**Founded 1963**
**Stores operate under The Limited, Limited Express, Lerner, Victoria's Secret, Lane Bryant, Sizes Unlimited, Heri Bendel, Abercrombie & Fitch**

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 1/30/83 | 1/29/84 | 2/3/85 | 2/1/86 | 1/31/87 | 1/30/88 |
| Number of Stores | 825 | 937 | 1,412 | 2,353 | 2,682 | 3,095 |
| Net Store Growth in Year | 395 | 112 | 475 | 941 | 329 | 413 |
| % Store Growth in Year | 92% | 14% | 51% | 67% | 14% | 15% |
| Store Operating Days | 228,410 | 320,684 | 435,502 | 685,230 | 916,370 | 1,051,414 |
| Sales Per Day Per Store | $3,158 | $3,386 | $3,084 | $3,484 | $3,430 | $3,355 |
| Sales Growth $DPD | $595 | $228 | -$302 | $400 | -$54 | -$75 |
| Sales Growth % on DPD Basis | 23% | 7% | -9% | 13% | -2% | -2% |
| Profit Per Day Per Store Pre Tax | $265 | $421 | $362 | $349 | $431 | $360 |
| Pretax Profit % on Sales | 8.4% | 12.4% | 11.7% | 10.0% | 12.6% | 10.7% |
| Gross Margin % | 29.0% | 30.2% | 30.1% | 30.1% | 30.6% | 28.2% |
| Profit Per Day Per Store After Tax | $147 | $221 | $212 | $212 | $248 | $224 |
| After Tax Profit % on Sales | 4.7% | 6.5% | 6.9% | 6.1% | 7.2% | 6.7% |
| Return on Average Stockholder Equity | 33% | 45% | 40% | 43% | 38% | 31% |
| Total Sales | $721,394,000 | $1,085,890,000 | $1,343,134,000 | $2,387,110,000 | $3,142,696,000 | $3,527,941,000 |
| Average Sales Per Store Per Year | $1,152,670 | $1,235,890 | $1,125,660 | $1,271,660 | $1,251,950 | $1,224,575 |

*Continued on next page.*

## HISTORICAL SUMMARY: THE LIMITED

*(Continued)*

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| YEAR ENDED | 1/30/83 | 1/29/84 | 2/3/85 | 2/1/86 | 1/31/87 | 1/30/88 |
| Total Pretax Profit | $60,592,000 | $134,939,000 | $157,495,000 | $239,317,000 | $394,780,000 | $378,188,000 |
| Total After Tax Profit | $33,592,000 | $70,939,000 | $92,495,000 | $145,317,000 | $227,780,000 | $235,188,000 |
| Earnings Per Share Last 12 Months | $.29 | $.59 | $.77 | $.80 | $1.21 | $1.25 |
| Net Working Capital | $22,887,000 | $40,131,000 | $67,260,000 | $62,906,000 | $134,327,000 | $214,296,000 |
| Cash & Equivalents | $5,489,000 | $1,282,000 | $7,494,000 | $12,948,000 | $3,256,000 | $47,953,000 |
| Debt to Worth | 1.61 | .96 | 1.05 | 2.00 | .76 | 1.18 |

Type of Operation: Specialty Women's Stores

## HISTORICAL SUMMARY: McDONALD'S CORPORATION

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1987

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 12/31/82 | 12/31/83 | 12/31/84 | 12/31/85 | 12/31/86 | 12/31/87 |
| **McDONALD'S**<br>**Oak Brook, Illinois**<br>**Founded in 1955**<br>**Restaurants operate under the "McDonald's" name in 41 countries** | | | | | | |
| Number of Restaurants | 7,259 | 7,778 | 8,304 | 8,901 | 9,410 | 9,911 |
| Net Restaurant Growth in Year | 520 | 519 | 526 | 597 | 509 | 501 |
| % Restaurant Growth in Year | 8% | 7% | 7% | 7% | 6% | 5% |
| Restaurant Operating Days | 2,554,375 | 2,743,993 | 2,943,006 | 3,139,614 | 3,341,503 | 3,525,832 |
| Sales Per Day Per Restaurant | $3,057 | $3,166 | $3,400 | $3,503 | $3,720 | $4,064 |
| Sales Growth $DPD | $257 | $109 | $234 | $103 | $217 | $344 |
| Sales Growth % on DPD Basis | 9% | 4% | 7% | 3% | 6% | 9% |
| Profit Per Day Per Store Pre Tax | $214 | $229 | $240 | $249 | $254 | $272 |
| Pretax Profit % on Sales | 7.0% | 7.2% | 7.0% | 7.1% | 6.8% | 6.7% |
| Gross Margin % | 63.0% | 63.2% | 62.6% | 63.5% | 63.9% | 64.6% |
| Profit Per Day Per Restaurant After Tax | $118 | $125 | $132 | $138 | $144 | $156 |
| After Tax Profit % on Sales | 3.9% | 3.9% | 3.9% | 3.9% | 3.9% | 3.8% |
| Return on Average Stockholder Equity | 20.8% | 20.9% | 21.0% | 21.2% | 20.6% | 20.6% |
| Total Sales | $7,809,000,000 | $8,687,000,000 | $10,007,000,000 | $11,001,000,000 | $12,432,000,000 | $14,330,000,000 |

*Continued on next page.*

## HISTORICAL SUMMARY: McDONALD'S CORPORATION

*(Continued)*

Data Taken from the Annual Report
and 10 K for the Year Ended December 31, 1987

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 12/31/82 | 12/31/83 | 12/31/84 | 12/31/85 | 12/31/86 | 12/31/87 |
| Average Sales Per Store Per Year | $1,115,805 | $1,155,590 | $1,241,000 | $1,278,595 | $1,357,800 | $1,483,360 |
| Total Pretax Profit | $546,000,000 | $628,000,000 | $707,000,000 | $782,000,000 | $848,000,000 | $959,000,000 |
| Total After Tax Profit | $301,000,000 | $343,000,000 | $389,000,000 | $433,000,000 | $480,000,000 | $549,062,000 |
| Earnings Per Share Last 12 Months | $3.33 | $3.83 | $2.92 | $3.32 | $3.73 | $3.14 |
| Net Working Capital | $— | $(198,524,000) | $(259,722,000) | $(294,001,000) | $(326,656,000) | $(372,608,000) |
| Cash & Equivalents | — | $66,479,000 | $74,520,000 | $155,413,000 | $205,098,000 | $183,206,000 |
| Debt to Worth | — | 1.12 | 1.10 | 1.24 | 1.38 | 1.39 |

Type of Operation: Fast Food Restaurant

## HISTORICAL SUMMARY: PEP BOYS

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|
| | | | YEAR ENDED | | |
| | 1/31/84 | 2/02/85 | 1/1/86 | 1/31/87 | 1/31/88 |
| **PEP BOYS**<br>**Philadelphia, PA**<br>**Founded 1921**<br>**Stores operate under the "Pep Boys" name in eleven states** | | | | | |
| Number of Stores | 124 | 135 | 159 | 177 | 207 |
| Net Store Growth in Year | 13 | 11 | 24 | 18 | 30 |
| % Store Growth in Year | 12% | 9% | 18% | 11% | 17% |
| Store Operating Days | 42,881 | 47,656 | 53,508 | 61,152 | 70,065 |
| Sales Per Day Per Store | $7,132 | $7,309 | $7,268 | $7,945 | $7,903 |
| Sales Growth $DPD | — | $177 | $-41 | $677 | $-42 |
| Sales Growth % on DPD Basis | — | 2% | -1% | 9% | -1% |
| Profit Per Day Per Store Pre Tax | $673 | $731 | $727 | $906 | $854 |
| Pretax Profit % on Sales | 9.4% | 10.0% | 10.0% | 11.4% | 10.8% |
| Gross Margin % | 35.4% | 35.1% | 35.2% | 35.6% | 37.1% |
| Profit Per Day Per Store After Tax | $362 | $385 | $394 | $460 | $490 |
| After Tax Profit % on Sales | 5.1% | 5.3% | 5.4% | 5.8% | 6.2% |
| Return on Average Stockholder Equity | 18.2% | 17.6% | 17.4% | 16.7% | 15.5% |
| Total Sales | $305,835,000 | $348,350,000 | $388,914,000 | $485,899,000 | $553,764,000 |
| Average Sales Per Store Per Year | $2,603,180 | $2,667,785 | $2,652,820 | $2,891,980 | $2,884,595 |

*Continued on next page.*

## HISTORICAL SUMMARY: PEP BOYS

*(Continued)*

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|
| | | | YEAR ENDED | | |
| | 1/31/84 | 2/02/85 | 1/1/86 | 1/31/87 | 1/31/88 |
| Total Pretax Profit | $28,868,000 | $34,847,000 | $38,929,000 | $55,412,000 | $59,826,000 |
| Total After Tax Profit | $15,542,000 | $18,340,000 | $21,100,000 | $28,148,000 | $34,342,000 |
| Earnings Per Share Last 12 Months | $1.00 | $1.17 | $1.29 | $1.55 | $.62 |
| Net Working Capital | $17,024,000 | $17,242,000 | $29,205,000 | $90,733,000 | $46,565,000 |
| Cash & Equivalent | $13,308,000 | $1,097,000 | $6,748,000 | $69,873,000 | $19,192,000 |
| Debt to Worth | .61 | .72 | .97 | .84 | .98 |

Type of Operation: Automotive

## HISTORICAL SUMMARY: PIC 'N' SAVE CORPORATION

Data Taken from the Annual Report and 10 K for the Year Ended

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 12/31/82 | 12/31/83 | 12/31/84 | 12/31/85 | 12/31/86 | 12/31/87 |
| **PIC 'N' SAVE Carson, California** | | | | | | |
| Number of Stores | 80 | 85 | 90 | 94 | 101 | 125 |
| Net Store Growth in Year | 5 | 5 | 5 | 4 | 7 | 24 |
| % Store Growth in Year | 7% | 6% | 6% | 4% | 7% | 24% |
| Store Operating Days | 28,285 | 30,110 | 32,025 | 33,578 | 35,584 | 41,233 |
| Sales Per Day Per Store | $6,283 | $7,543 | $7,342 | $8,281 | $8,559 | $8,772 |
| Sales Growth $DPD | $1,422 | $1,260 | -$201 | $928 | $278 | $213 |
| Sales Growth % on DPD Basis | 29% | 20% | -3% | 13% | 3% | 2% |
| Profit Per Day Per Store Pre Tax | $1,929 | $2,448 | $2,257 | $2,457 | $2,279 | $2,101 |
| Pretax Profit % on Sales | 30.7% | 32.4% | 30.7% | 29.7% | 26.6% | 23.9% |
| Gross Margin % | 54.6% | 54.9% | 53.7% | 53.8% | 53.4% | 53.1% |
| Profit Per Day Per Store After Tax | $955 | $1,211 | $1,140 | $1,223 | $1,118 | $1,147 |
| After Tax Profit % on Sales | 15.2% | 16.0% | 15.5% | 14.8% | 13.1% | 13.1% |
| Return on Average Stockholder Equity | 31.8% | 31.0% | 35.2% | 44.9% | 30.1% | |
| Total Sales | $177,738,000 | $227,130,000 | $235,147,000 | $278,072,000 | $304,548,000 | $361,729,000 |
| Average Sales Per Store Per Year | $2,293,295 | $2,753,195 | $2,679,830 | $3,022,565 | $3,124,035 | $3,201,780 |
| Total Pretax Profit | $54,556,000 | $73,699,000 | $72,281,000 | $82,510,000 | $81,091,000 | $86,642,000 |
| Total After Tax Profit | $27,009,000 | $36,451,000 | $36,510,000 | $41,074,000 | $39,767,000 | $47,313,000 |

*Continued on next page.*

## HISTORICAL SUMMARY: PIC 'N' SAVE CORPORATION

*(Continued)*

Data Taken from the Annual Report and 10 K for the Year Ended

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 12/31/82 | 12/31/83 | 12/31/84 | 12/31/85 | 12/31/86 | 12/31/87 |
| Earnings Per Share Last 12 Months | $.87 | $1.17 | $1.25 | $1.56 | $1.01 | $1.20 |
| Net Working Capital | $79,230,000 | $98,164,000 | $41,845,000 | $57,630,000 | $94,266,000 | $107,968,000 |
| Cash & Equivalent | — | $88,446,000 | $22,313,000 | $37,017,000 | $58,782,000 | $38,800,000 |
| Debt to Worth | — | .23 | .64 | .28 | .23 | .24 |

Type of Stores: Close Out

# HISTORICAL SUMMARY: THE PRICE COMPANY

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 12TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | | |
| | 8/31/81 | 8/31/82 | 8/31/83 | 8/31/84 | 8/31/85 | 8/31/86 | 8/31/88 |
| **Stores Operate Under THE PRICE CLUB** | | | | | | | |
| Number of Stores | 7 | 11 | 15 | 21 | 25 | 34 | 39 |
| Net Store Growth in Year | 3 | 4 | 4 | 6 | 4 | 9 | 5 |
| % Store Growth in Year | 75% | 57% | 36% | 40% | 19% | 36% | 17% |
| Store Operating Days | 2,171 | 3,047 | 4,680 | 6,952 | 8,593 | 10,071 | 13,543 |
| Sales Per Day Per Store | $168,678 | $207,712 | $243,888 | $263,804 | $301,445 | $321,350 | $299,301 |
| Sales Growth $DPD | $13,336 | $39,034 | $36,176 | $19,916 | $37,641 | $19,905 | -$22,049 |
| Sales Growth % on DPD Basis | 9% | 23% | 17% | 8% | 14% | 7% | -7% |
| Profit Per Day Per Store Pre Tax | $7,156 | $9,595 | $12,022 | $13,040 | $13,503 | $13,868 | $11,564 |
| Pretax Profit % on Sales | 4.24% | 4.62% | 4.93% | 4.94% | 4.48% | 4.32% | 3.86% |
| Gross Margin % | 10.8% | 10.7% | 10.1% | 9.4% | 8.7% | 8.9% | 8.9% |
| Profit Per Day Per Store After Tax | $3,635 | $4,834 | $6,111 | $6,611 | $6,854 | $7,280 | $6,996 |
| After Tax Profit % on Sales | 2.16% | 2.33% | 2.50% | 2.50% | 2.27% | 2.27% | 2.34% |
| Return on Average Stockholder Equity | 49.2% | 33.0% | 33.5% | 35.0% | 25.4% | 21.5% | 22.1% |
| Total Sales | $366,200,000 | $632,900,000 | $1,141,400,00 | $1,833,972,000 | $2,590,319,000 | $3,236,321,000 | $4,053,440,000 |
| Average Sales Per Store Per Year | $61,567,000 | $75,814,880 | $89,019,120 | $96,288,460 | $110,027,420 | $116,971,400 | $109,244,860 |
| Total Pretax Profit | $15,537,000 | $29,239,000 | $56,266,000 | $90,656,000 | $116,036,000 | $139,665,000 | $156,617,000 |
| Total After Tax Profit | $7,900,000 | $14,700,000 | $28,600,000 | $45,963,000 | $58,900,000 | $73,324,000 | $94,753,000 |

*Continued on next page.*

## HISTORICAL SUMMARY: THE PRICE COMPANY

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 12TH SURVEY | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|---|
| | | | | 7YEAR ENDED | | | |
| | 8/31/81 | 8/31/82 | 8/31/83 | 8/31/84 | 8/31/85 | 8/31/86 | 8/31/88 |
| Earnings Per Share Last 12 Months | $.20 | $.34 | $.64 | $1.01 | $1.25 | $1.50 | $1.93 |
| Net Working Capital | -$7,010,000 | $8,073,000 | $84,066,000 | $95,042,000 | $74,199,000 | $222,383,000 | $221,445,000 |
| Cash & Equivalents | $8,581,000 | $32,686,000 | $108,071,000 | $146,934,000 | $135,101,000 | $263,586,000 | $290,134,000 |
| Debt to Worth | .53 | .96 | .61 | .73 | .63 | 1.20 | 1.07 |
| # of Employees | | | | | 7,000+ | — | — |
| # Stores Owned | 6 | 7 | 11 | — | — | — | — |
| % of Stores Owned | 86% | 64% | 73% | — | — | — | — |
| Type of Store: Warehouse | | | | | | | |

## HISTORICAL SUMMARY: TOYS 'R' US

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | | | YEAR ENDED | | | |
| | 1/30/83 | 1/29/84 | 2/3/85 | 2/2/86 | 2/1/87 | 1/31/88 |
| **TOYS 'R' US & KIDS 'R' US**<br>**Rochelle Park, New Jersey** | | | | | | |
| Number of Stores | 148 | 175 | 217 | 273 | 338 | 424 |
| Net Store Growth in Year | 28 | 27 | 42 | 56 | 65 | 86 |
| % Store Growth in Year | 23% | 18% | 24% | 26% | 24% | 25% |
| Store Operating Days | 48,776 | 58,786 | 72,695 | 89,180 | 111,202 | 138,684 |
| Sales Per Day Per Store | $21,357 | $22,448 | $23,408 | $22,159 | $21,986 | $22,619 |
| Sales Growth $DPD | $ | $1,091 | $960 | -$1,249 | -$173 | $633 |
| Sales Growth % on DPD Basis | — | 5% | 4% | -5% | -1% | 3% |
| Profit Per Day Per Store Pre Tax | $2,549 | $3,032 | $2,836 | $2,464 | $2,556 | $2,494 |
| Pretax Profit % on Sales | 11.9% | 13.5% | 12.1% | 11.1% | 11.6% | 11.0% |
| Gross Margin % | 32.3% | 33.2% | 33.1% | 33.1% | 31.8% | 31.2% |
| Profit Per Day Per Store After Tax | $1,315 | $1,570 | $1,533 | $1,343 | $1,369 | $1,665 |
| After Tax Profit % on Sales | 6.2% | 7.0% | 6.5% | 6.1% | 6.2% | 6.5% |
| Return on Average Stockholder Equity | 24.2% | 23.6% | 21.5% | 18.5% | 18.8% | |
| Total Sales | $1,041,735,000 | $1,319,642,000 | $1,701,700,000 | $1,976,134,000 | $2,444,903,000 | $3,137,000,000 |
| Average Sales Per Store Per Year | $7,795,305 | $8,193,520 | $8,543,920 | $8,088,035 | $8,248,890 | $8,255,935 |
| Total Pretax Profit | $124,322,000 | $178,242,000 | $206,174,000 | $219,774,000 | $284,217,000 | $345,922,000 |
| Total After Tax Profit | $64,162,000 | $92,317,000 | $111,424,000 | $119,774,000 | $152,217,000 | $203,922,000 |

*Continued on next page.*

# HISTORICAL SUMMARY: TOYS 'R' US

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | | | YEAR ENDED | | | |
| | 1/30/83 | 1/29/84 | 2/3/85 | 2/2/86 | 2/1/87 | 1/31/88 |
| Earnings Per Share Last 12 Months | $.52 | $.72 | $.87 | $.93 | $1.17 | $1.56 |
| Net Working Capital | $157,405,000 | $220,442,000 | $221,640,000 | $181,162,000 | $155,421,000 | $225,031,000 |
| Cash & Equivalent | $134,516,000 | $235,838,000 | $215,279,000 | $136,171,000 | $84,379,000 | $45,996,000 |
| Debt to Worth | .73 | .78 | .90 | .71 | .69 | .79 |

Type of Operation: Discount Toys & Children's Clothing Stores

## HISTORICAL SUMMARY: WALGREEN COMPANY

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|
| | | | YEAR ENDED | | |
| | 8/31/83 | 8/31/84 | 8/31/85 | 8/31/86 | 8/31/87 |

**WALGREEN'S**
**Deerfield, Illinois**
**Founded 1901**
**Stores operate under the "Walgreen's" name in thirty states and Puerto Rico**

| | | | | | |
|---|---|---|---|---|---|
| Number of Stores | 941 | 1,002 | 1,095 | 1,273 | 1,356 |
| Net Store Growth in Year | 58 | 61 | 93 | 178 | 83 |
| % Store Growth in Year | 7% | 6% | 9% | 16% | 7% |
| Store Operating Days | 332,851 | 355,569 | 382,656 | 432,071 | 479,751 |
| Sales Per Day Per Store[1] | $6,724 | $7,352 | $7,913 | $8,158 | $8,658 |
| Sales Growth $DPD | $536 | $628 | $561 | $245 | $500 |
| Sales Growth % on DPD Basis | 9% | 9% | 8% | 3% | 6% |
| Profit Per Day Per Store Pre Tax[2] | $362 | $422 | $454 | $434 | $405 |
| Pretax Profit % on Sales[3] | 5.11% | 5.46% | 5.49% | 5.12% | 4.67% |
| Gross Margin %[3] | 30.6% | 30.8% | 30.7% | 30.3% | 29.9% |
| Profit Per Day Per Store After Tax[2] | $210 | $240 | $246 | $239 | $216 |
| After Tax Profit % on Sales[3] | 2.96% | 3.11% | 2.98% | 2.81% | 2.49% |
| Return on Average Stockholder Equity | 21.4% | 22.3% | 21.0% | 19.9% | 17.6% |
| Total Sales[1] | $2,238,217,000 | $2,614,265,000 | $3,028,034,000 | $3,524,691,000 | $4,153,565,000 |
| Average Sales Per Store Per Year[1] | $2,454,260 | $2,683,480 | $2,888,245 | $2,977,670 | |

*Continued on next page.*

## HISTORICAL SUMMARY: WALGREEN COMPANY

*(Continued)*

Data Taken from the Annual Report
and 10 K for the Year Ended

|  | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|
|  | YEAR ENDED |  |  |  |  |
|  | 8/31/83 | 8/31/84 | 8/31/85 | 8/31/86 | 8/31/87 |
| Total Pretax Profit | $120,549,000 | $149,983,000 | $173,700,000 | $187,626,000 | $194,183,000 |
| Total After Tax Profit[3] | $69,789,000 | $85,446,000 | $94,169,000 | $103,137,000 | $103,537,000 |
| Earnings Per Share Last 12 Months | $1.14 | $1.39 | $1.53 | $1.67 | $1.68 |
| Net Working Capital | $151,532,000 | 211,759,000 | $257,028,000 | $331,330,000 | $358,078,000 |
| Cash & Equivalent | $67,830,000 | 56,593,000 | $82,433,000 | $98,102,000 | $41,237,000 |
| Debt to Worth | 1.95 | 1.03 | 1.00 | 1.16 | 1.19 |
| Sales Area Square Footage | 8,402,000 | 9,002,000 | 10,010,000 | 11,895,000 | 12,844,000 |
| Sales per Square Foot— Average Sales Area | $276 | $300 | $319 | $322 | $323 |
| Type of Operation: Drug Store |  |  |  |  |  |

[1] Drug Stores Only.

[2] Walgreen operates 102 separate restaurants that do 3.3% of total corporate sales. We have ignored these operations and assumed all profits come from the drug stores in the profit analysis.

[3] All operations included.

## HISTORICAL SUMMARY: WAL-MART STORES, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 1/31/83 | 1/31/84 | 1/31/85 | 1/31/86 | 1/31/87 | 1/31/88 |
| **WAL-MART AND SAMS**<br>**Bentonville, Arkansas**<br>**Founded in 1952**<br>**Stores operate under the "Wal-Mart and Sams" wholesale club name in twenty-two states** | | | | | | |
| Number of Stores | 551 | 645 | 756 | 882 | 1,029 | 1,198 |
| Net Store Growth in Year | 60 | 94 | 111 | 126 | 147 | 169 |
| % Store Growth in Year | 12% | 17% | 17% | 17% | 17% | 16% |
| Store Operating Days | 190,135 | 218,223 | 256,383 | 298,872 | 348,831 | 406,343 |
| Sales Per Day Per Store | $17,757 | $21,385 | $24,966 | $28,278 | $34,139 | $39,275 |
| Sales Growth $DPD | $1,431 | $3,628 | $3,581 | $3,312 | $5,861 | $5,136 |
| Sales Growth % on DPD Basis | 9% | 20% | 17% | 13% | 21% | 15% |
| Profit Per Day Per Store Pre Tax | $1,181 | $1,637 | $1,959 | $2,020 | $2,425 | $2,629 |
| Pretax Profit % on Sales | 6.7% | 7.7% | 7.8% | 7.1% | 7.1% | 6.7% |
| Gross Margin % | 27.2% | 26.8% | 26.2% | 24.7% | 24.0% | 23.1% |
| Profit Per Day Per Store After Tax | $653 | $899 | $1,056 | $1,096 | $1,290 | $1,544 |
| After Tax Profit % on Sales | 3.7% | 4.2% | 4.2% | 3.9% | 3.8% | 3.9% |
| Return on Average Stockholder Equity | 30.6% | 13.2% | 31.5% | 28.9% | 30.3% | 31.8% |
| Total Sales | $3,376,252,000 | $4,666,909,000 | $6,400,861,000 | $8,451,489,000 | $11,909,076,000 | $15,959,255,000 |
| Average Sales Per Store Per Year | $6,481,305 | $7,805,525 | $9,112,590 | $10,321,470 | $12,460,735 | $14,335,375 |

*Continued on next page.*

## HISTORICAL SUMMARY: WAL-MART STORES, INC.

*(Continued)*

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | | | YEAR ENDED | | | |
| | 1/31/83 | 1/31/84 | 1/31/85 | 1/31/86 | 1/31/87 | 1/31/88 |
| Total Pretax Profit | $224,556,000 | $357,147,000 | $501,420,000 | $603,592,000 | $846,026,000 | $1,068,670,000 |
| Total After Tax Profit | $124,140,000 | $196,244,000 | $270,767,000 | $327,473,000 | $450,086,000 | $627,643,000 |
| Earnings Per Share Last 12 Months | $.23 | $.35 | $.48 | $.58 | $.79 | $1.11 |
| Net Working Capital | $373,219,000 | $502,804,000 | $614,286,000 | $791,592,000 | $1,012,980,000 | $1,161,382,000 |
| Cash & Equivalent | $33,282,000 | $156,860,000 | $1,852,000 | $174,418,000 | $165,545,000 | $11,325,000 |
| Debt to Worth | 1.43 | 1.24 | 1.24 | 1.43 | 1.39 | 1.27 |
| Total Square Footage—Stores | 27,727,803 | 34,328,171 | 41,503,225 | 51,105,317 | 63,017,230 | 77,804,000 |
| Sales Per Square Foot | $122 | $136 | $154 | $165 | $189 | $205 |

Type of Operation: Low Priced General Merchandise

## HISTORICAL SUMMARY: WEIS MARKETS, INC.

Data Taken from the Annual Report
and 10 K for the Year Ended

| | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 12/25/82 | 12/31/83 | 12/29/84 | 12/28/85 | 12/27/86 | 12/26/87 |
| **WEIS MARKETS**<br>**Sunbury, Pennsylvania** | | | | | | |
| Number of Stores | 112 | 116 | 119 | 122 | 116 | 116 |
| Net Store Growth in Year | 2 | 4 | 3 | 3 | -6 | — |
| % Store Growth in Year | 2% | 4% | 3% | 3% | -5% | — |
| Store Operating Days | 40,404 | 43,764 | 42,770 | 43,862 | 43,316 | 42,224 |
| Sales Per Day Per Store | $20,102 | $20,378 | $22,393 | $23,190 | $25,428 | $26,722 |
| Sales Growth $DPD | | $276 | $2,015 | $797 | $2,238 | $1,294 |
| Sales Growth % on DPD Basis | | 1% | 10% | 4% | 10% | 5% |
| Profit Per Day Per Store Pre Tax | $2,046 | $2,188 | $2,445 | $2,520 | $2,820 | $3,098 |
| Pretax Profit % on Sales | 10.18% | 10.73% | 10.92% | 10.86% | 11.09% | 11.60% |
| Gross Margin % | | 25.50% | 25.49% | 25.97% | 25.99% | 26.31% |
| Profit Per Day Per Store After Tax | $1,070 | $1,145 | $1,293 | $1,371 | $1,507 | $1,799 |
| After Tax Profit % on Sales | 5.32% | 5.62% | 5.77% | 5.91% | 5.92% | 6.73% |
| Return on Average Stockholder Equity | 18.90% | 18.94% | 18.20% | 17.44% | 16.88% | 17.64% |
| Total Sales | $812,215,000 | $891,857,000 | $957,775,000 | $1,017,000,000 | $1,101,473,000 | $1,128,325,000 |
| Average Sales Per Store Per Year | $7,337,230 | $7,437,970 | $8,173,445 | $8,464,350 | $9,255,792 | $9,753,530 |
| Total Pretax Profit | $82,696,000 | $95,742,000 | $104,612,000 | $110,537,000 | $122,148,000 | $130,832,000 |
| Total After Tax Profit | $43,241,000 | $50,120,000 | $55,307,000 | $60,144,000 | $65,261,000 | $75,982,000 |

*Continued on next page.*

# HISTORICAL SUMMARY: WEIS MARKETS, INC.

*(Continued)*

| Data Taken from the Annual Report and 10 K for the Year Ended | 13TH SURVEY | 14TH SURVEY | 15TH SURVEY | 16TH SURVEY | 17TH SURVEY | 18TH SURVEY |
|---|---|---|---|---|---|---|
| | YEAR ENDED | | | | | |
| | 12/25/82 | 12/31/83 | 12/29/84 | 12/28/85 | 12/27/86 | 12/26/87 |
| Earnings Per Share Last 12 Months | $1.40 | $1.62 | $1.79 | $1.30 | $1.42 | $1.66 |
| Net Working Capital | $148,178,000 | $179,624,000 | $216,441,000 | $238,012,000 | $277,255,000 | $313,900,000 |
| Cash & Equivalents | | | $203,421,000 | $210,350,000 | $255,643,000 | $294,238,000 |
| Debt to Worth | | | | .17 | .16 | .18 |
| # of Employees | | | | 12,400 | 13,000 | 13,000 |
| Type of Operation: Supermarkets | | | | | | |

## HOW MUCH GASOLINE IS SOLD FROM CONVENIENCE STORES?

This is unknown. There is no definition of a convenience store with which everyone agrees. Ten years ago it was a fairly definable entity. Today, that is not true. It becomes less true everyday.

The chains in this survey are the old guard. They were traditional convenience store operators that installed two pumpers in front of their 60 by 40 stores. The chains in this survey sold 3,917,386,377 gallons of gasoline in their last fiscal years. That was 3.6% of the total highway gasoline sold in the United States in 1987.

From this point on, the figures are all estimates. One reasonable sounding estimate is that there are 70,000 convenience stores in the United States (I made this figure up myself. It's somewhere between the 50,000 convenience stores of the Progressive Grocer Survey, the 67,500 stores of the NACS Survey, and the 80,000 stores in the Convenience News Survey).

The eight chains in the Dollars Per Day Survey operated 16,925 or about 24% of my estimate of the total convenience stores. 9,468 or 56% of these stores sold gasoline. If these figures are representative of the total convenience store population and are multiplied by 4.16, you arrive at the following:

| # of Convenience Stores | Gasoline Units | Gallons Sold | % of the National Gasoline Market |
|---|---|---|---|
| 70,000 | 39,151 | 17,119,557,000 | 15.7 |

Comments: It appears that traditional convenience stores' gasoline units are not keeping pace with the gasoline industry. The oil companies continue to improve and upgrade their units. Most convenience stores still operate outdated 2 pump units. Gallonage in these units will continue to suffer as the majors build their new million dollar units.

## ANOTHER WAY TO ESTIMATE THE PERCENTAGE OF TOTAL GASOLINE SOLD IN THE UNITED STATES BY C-TYPE STORES—1987

| YEAR | # OF C-STORES | % OF C-STORES WITH GASOLINE | # OF GAS UNITS | GALLONS PUMPED PER UNIT DAILY | GALLONS PUMPED PER UNIT YEARLY | TOTAL GALLONS PUMPED | AMOUNT OF HIGHWAY GAS CONSUMED – BILLIONS OF GALLONS | % OF NATIONAL MARKET SUPPLIED BY C-STORES |
|---|---|---|---|---|---|---|---|---|
| 1982 | 50,000 | 59% | 29,641 | 1,101 | 401,865 | 11,909,352,000 | 98.5 | 12.09% |
| 1983 | 53,000 | 63% | 33,352 | 1,201 | 438,365 | 14,620,349,000 | 99.4 | 14.71% |
| 1984 | 58,000 | 68% | 37,531 | 1,227 | 447,855 | 16,808,446,000 | 101.4 | 16.58% |
| 1985 | 60,000 | 60% | 34,701 | 1,276 | 465,740 | 16,161,643,000 | 103.6 | 15.60% |
| 1986 | 64,000 | 59% | 37,954 | 1,330 | 485,450 | 18,424,769,000 | 106.8 | 17.25% |
| 1987 | 70,000 | 63% | 43,963 | 1,198 | 437,270 | 19,223,701,000 | | |

Southland's numbers heavily weight the Dollars Per Day Survey. Southland was a late entry into the gasoline business (they had only 75 units in 1970, which means that just 2% of their units sold gasoline at that time), and today they have a lower percentage of gasoline units than most of the chains in the Survey (45% of Southland's store units sold gasoline in 1987, versus 65% of the stores operated by the rest of the Survey chains).

To compute a better estimate of the total percent of the national gasoline market supply by C-type stores, we have gone through the following exercises:

| | |
|---|---|
| Estimate of total C-type stores | 70,000 |
| Less Southland's 11.6% of total C-type stores | -7,818 |
| C-type stores other than Southland's | 62,182 |
| Multiplied by the 65% having gasoline units | × 65% |
| C-type stores other than Southland's with gas units | 40,418 |
| Plus Southland's gasoline units | + 3,545 |
| Total C-type stores with gasoline units | 43,963 |
| Percentage of the total 70,000 C-type store with gasoline using this method | 62.8% |

Some of the jobber operated units seem to have far greater gallonage than those operated by traditional convenience store operators. This should be kept in mind when making your own estimate of the total gallonage sold through C-type units. Our estimates of the percentage of the gasoline sold through C-type stores should be considered a good guess. It is probable that the number of units, the amount of gasoline sold, and the percentage of the national gasoline market supplied by C-type stores is lower or higher than the figures shown in these estimates.

## CONVENIENCE STORES WITH GASOLINE UNITS

| DOLLARS PER DAY PROFIT RANKING | COMPANY | NUMBER OF STORES | NUMBER OF GASOLINE UNITS | PERCENT OF STORES WITH GASOLINE | GASOLINE UNITS ADDED DURING YEAR | NET STORES ADDED DURING YEAR |
|---|---|---|---|---|---|---|
| 1 | Casey's | 653 | 653 | 100% | 67 | 67 |
| 2 | Circle K | 4,077 | 3,011 | 74% | 578 | 570 |
| 3 | Silcorp | 1,049 | 234 | 22% | 34 | -4 |
| 4 | Dairy Mart | 1,188 | 438 | 37% | 23 | -19 |
| 5 | Sunshine Jr. | 316 | 306 | 97% | -11 | -14 |
| 6 | National Convenience | 1,119 | 874 | 78% | 151 | 169 |
| 7 | Munford | 705 | 407 | 58% | -41 | -87 |
| 8 | Southland | 7,818 | 3,545 | 45% | -49 | 146 |
|  | Total | 16,925 | 9,468 | 56% | 752 | 828 |

## C-TYPE STORE GASOLINE SALES

Using the Average of the Chains in the Dollars Per Day Survey as the Base

| YEAR | # OF C-STORES | % OF STORES WITH GAS PUMPS | # OF GAS UNITS | GALLONS PUMPED PER UNIT | AMOUNT OF TOTAL GALLONS PUMPED | HIGHWAY GAS CONSUMED—BILLIONS OF GALLONS | PERCENT OF NAT'L. MARKET SUPPLIED BY C-STORES | INCREASE | PERCENT OF INCREASE OVER PREVIOUS YEAR |
|---|---|---|---|---|---|---|---|---|---|
| 1980 | 39,000 | 44.45% | 17,160 | 359,890 | 6,175,712,000 | 101.2 | 6.10% |  |  |
| 1981 | 39,000 | 46.76% | 18,330 | 379,600 | 6,958,068,000 | 99.6 | 6.99% | 0.89% | 14.2% |
| 1982 | 50,000 | 49.11% | 24,555 | 401,865 | 9,865,663,000 | 98.5 | 10.01% | 3.02% | 43.2% |
| 1983 | 53,000 | 53.14% | 28,164 | 438,365 | 12,346,111,000 | 99.4 | 12.42% | 2.41% | 24.1% |
| 1984 | 58,000 | 54.36% | 31,528 | 447,855 | 14,119,972,000 | 101.4 | 13.92% | 1.50% | 10.9% |
| 1985 | 60,000 | 53.44% | 32,064 | 465,740 | 14,933,487,000 | 103.6 | 14.41% | 0.49% | 12.0% |
| 1986 | 64,000 | 54.15% | 34,656 | 485,450 | 16,823,755,000 | 106.8 | 15.75% | 1.34% | 9.3% |
| 1987 | 70,000 | 55.93% | 39,151 | 437,270 | 17,119,557,000 |  |  |  |  |

## RECAP OF IMPORTANT GASOLINE STATISTICS FOR THE CHAINS IN THE SURVEY

| | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|
| Number of Gasoline Units | 6,029 | 7,378 | 7,592 | 7,949 | 8,716 | 9,468 |
| Gallons Sold | 2,328,127,593 | 2,926,108,199 | 3,281,690,023 | 3,545,037,630 | 3,993,566,490 | 3,917,368,377 |
| Percent of Total U.S. Highway Gallons Used | 2.36% | 2.94% | 3.24% | 3.12% | 3.74% | |
| Average Gallonage Gasoline Unit per Day | 1,101 | 1,201 | 1,227 | 1,276 | 1,330 | 1,198 |
| Gasoline as a Percent of Total Sales | 31.07% | 31.40% | 32.59% | 32.02% | 26.6% | 27.5% |
| Average Retail Price per Gallon | 115.0¢ | 111.4¢ | 109.2¢ | 107.5¢ | 83.9¢ | 88.8¢ |

## TOTAL GASOLINE SALES IN DOLLARS

| PER DAY PROFIT RANKING | COMPANY | GAS DOLLAR SALES |
|---|---|---|
| 1 | Casey's | $ 201,977,710 |
| 2 | Circle K | 964,600,000 |
| 3 | Silcorp | 64,976,704 |
| 4 | Dairy Mart | 159,549,906 |
| 5 | Sunshine Jr. | 80,740,074 |
| 6 | National Convenience | 365,000,000 |
| 7 | Munford | 43,636,320 |
| 8 | Southland | 1,600,000,000 |
| | Total Dollars of Gasoline Sold | $3,480,480,714 |

## SCHEDULE OF IMPORTANT GASOLINE INFORMATION

| DOLLARS PER DAY PROFIT RANKING | COMPANY | NUMBER OF GASOLINE UNITS | NUMBER OF GALLONS SOLD THIS YEAR | GASOLINE OPERATING DAYS | AVERAGE GALLONS SOLD PER DAY PER GASOLINE UNIT | GASOLINE MARGIN PER DAY PER GASOLINE UNIT | GASOLINE MARGIN PER GALLON | PERCENT OF SALES CONTRIBUTED BY GASOLINE | PERCENT OF MARGIN CONTRIBUTED BY GASOLINE |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Casey's | 653 | 226,963,730 | 226,737 | 1,001 | $107.60 | 10.75¢ | 38.5% | 25.2% |
| 2 | Circle K | 3,011 | 1,073,500,000 | 996,252 | 1,077 | 110.06 | 10.20¢ | 37.0% | 14.0% |
| 3 | Silcorp | 234 | 98,119,047 | 78,988 | 1,242 | N/A | N/A | N/A | N/A |
| 4 | Dairy Mart | 438 | 178,000,000 | 155,246 | 1,146 | 100.63 | 8.80¢ | N/A | 10.8% |
| 5 | Sunshine Jr. | 306 | 90,900,000 | 119,642 | 760 | 73.56 | 9.68¢ | 49.0% | 24.0% |
| 6 | National Convenience | 874 | 420,000,000 | 292,251 | 1,437 | 140.83 | 9.80¢ | 39.9% | 16.4% |
| 7 | Munford | 407 | 49,140,000* | 98,280 | 500 | N/A | N/A | N/A | N/A |
| 8 | Southland | 3,545 | 1,780,745,600 | 1,302,843 | 1,367 | 118.93 | 8.70¢ | 21.0% | 7.0% |
|  | Totals | 9,468 | 3,917,368,377 | 3,270,239 | 1,198 | N/A | N/A | 27.4% | N/A |

*Does not include gallons for 137 fee operated units.

## STORES WITH GASOLINE UNITS

| SURVEY YEAR | NUMBER OF STORES | NUMBER OF STORES WITH GAS UNITS | GAS UNITS ADDED DURING YEAR | PERCENT OF STORES WITH GAS |
|---|---|---|---|---|
| 1974-Fourth Survey | 9,258 | 1,964 |  | 21.21% |
| 1975-Fifth Survey | 10,143 | 2,147 | 194 | 21.16% |
| 1976-Sixth Survey | 11,356 | 2,786 | 557 | 24.53% |
| 1977-Seventh Survey | 11,953 | 3,792 | 959 | 31.72% |
| 1978-Eighth Survey | 12,597 | 4,584 | 792 | 36.38% |
| 1979-Ninth Survey | 12,920 | 5,153 | 569 | 39.88% |
| 1980-Tenth Survey | 13,167 | 5,630 | 447 | 42.76% |
| 1981-Eleventh Survey | 12,445 | 5,533 | 442 | 44.45% |
| 1982-Twelfth Survey | 12,400 | 5,799 | 393 | 46.76% |

*Continued on next page.*

## STORES WITH GASOLINE UNITS

*(Continued)*

| SURVEY YEAR | NUMBER OF STORES | NUMBER OF STORES WITH GAS UNITS | GAS UNITS ADDED DURING YEAR | PERCENT OF STORES WITH GAS |
|---|---|---|---|---|
| 1983-Thirteenth Survey | 12,276 | 6,029 | 480 | 49.11% |
| 1984-Fourteenth Survey | 13,883 | 7,378 | 990 | 53.14% |
| 1985-Fifteenth Survey | 13,964 | 7,592 | 527 | 54.36% |
| 1986-Sixteenth Survey | 14,874 | 7,949 | 686 | 53.44% |
| 1987-Seventeenth Survey | 16,097 | 8,716 | 767 | 54.15% |
| 1988-Eighteenth Survey | 16,925 | 9,467 | 752 | 55.93% |

## CASEY'S GASOLINE—COMPANY STORES

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| Number of Gallons Sold | 68,564,947 | 80,534,449 | 97,411,093 | 115,525,914 | 130,404,151 | 145,862,016 |
| Average Retail per Gallon | $1.18 | $1.17 | $1.10 | $1.07 | $.81 | $.89 |
| Total Retail Sales | $81,099,067 | $94,582,596 | $107,198,869 | $123,813,989 | $105,849,166 | $129,519,442 |
| Average Number of Gallons Sold per Company Store | 444,197 | 447,889 | 444,494 | 428,198 | 394,445 | 366,398 |
| Average Gross Profit Margin per Gallon | 7.37¢ | 7.98¢ | 9.25¢ | 10.60¢ | 11.52¢ | 10.75¢ |
| Average Gallons Sold per Day per Store | 1,217 | 1,223 | 1,218 | 1,127 | 1,047 | 1,001 |
| Gasoline Margin Per Day Per Gasoline Unit | $90 | $98 | $113 | $119 | $121 | $108 |
| Total Casey's Gasoline Days—All Stores | 130,651 | 146,400 | 165,865 | 185,384 | 204,432 | 226,737 |
| Total Casey's Gallonage if all stores sold the same amount of gasoline as the Company Stores shown above | 159,002,260 | 179,047,200 | 202,023,570 | 208,927,760 | 214,040,300 | 226,963,730 |
| Total Casey's Retail Gasoline Sales computed on the basis of the above figures | $187,622,660 | $209,485,220 | $222,225,920 | $223,552,700 | $173,372,640 | $201,977,710 |

## CIRCLE K GASOLINE

| | YEAR ENDED 04/30/82 | YEAR ENDED 04/30/83 | YEAR ENDED 04/30/84 | YEAR ENDED 04/30/85 | YEAR ENDED 04/30/86 | YEAR ENDED 04/30/87 | YEAR ENDED 04/30/88 |
|---|---|---|---|---|---|---|---|
| Total Gasoline Sales | $283,400,000 | $287,300,000 | $382,200,000 | $592,121,720 | $742,900,000 | $731,200,000 | $964,600,000 |
| Total Gallons Sold | 230,700,000 | 255,200,000 | 346,700,000 | 546,200,000 | 704,900,000 | 904,300,000 | 1,073,500,000 |
| Number of Gas Units | 780 | 798 | 1,463 | 1,719 | 2,293 | 2,433 | 3,011 |
| Gas Operating Days | 279,759 | 287,976 | 378,731 | 580,587 | 739,845 | 861,470 | 996,252 |
| Average Gallons Sold per Unit per Day | 824 | 886 | 915 | 940 | 953 | 1,049 | 1,077 |
| Average Gallons Sold per Unit per Month | 25,063 | 26,580 | 27,450 | 28,200 | 28,590 | 31,470 | 32,310 |
| Average Margin per Gallon of Gasoline Sold | | 6.3¢ | 6.8¢ | N/A | 6.5¢ | 7.6¢ | 10.2¢ |
| Total Gasoline Gross Margin | | $16,077,600 | $23,575,600 | N/A | $646,323,000 | $745,824,000 | $102,247,600 |
| Gasoline Margin as a % of Total Company Margin | | 9.26% | 9.50% | N/A | 11.5% | 11.7% | 14.2% |
| Total Gasoline Gallonage Growth | | | | | 29% | 28% | 19% |
| Gasoline Margin Per Gas Unit Per Day | | | | | $61.94 | $79.72 | $110.06 |

## NATIONAL CONVENIENCE STORES GASOLINE

| | YEAR ENDED 06/30/82 | YEAR ENDED 06/30/83 | YEAR ENDED 06/30/84 | YEAR ENDED 06/30/85 | YEAR ENDED 06/30/86 | YEAR ENDED 06/30/87 | YEAR ENDED 06/30/88 |
|---|---|---|---|---|---|---|---|
| Total Gasoline Sales | $255,470,000 | $255,088,000 | $344,841,800 | $414,343,504 | $425,999,690 | $313,000,000 | $365,000,000 |
| Total Gallons Sold | 216,500,000 | 231,600,000 | 310,000,000 | 385,100,000 | 421,200,000 | 425,700,000 | 420,000,000 |
| Number of Gas Units | 585 | 695 | 775 | 824 | 713 | 723 | 874 |
| Gas Operating Days | 193,944 | 233,545 | 269,010 | 291,793 | 280,447 | 262,075 | 292,251 |
| Average Gallons Sold per Unit per Day | 1,116 | 991 | 1,152 | 1,319 | 1,501 | 1,624 | 1,437 |
| Average Gallons Sold per Unit per Month | 33,945 | 29,730 | 34,560 | 39,570 | 45,030 | 48,720 | 43,110 |
| Margin per Gallon Sold | 7.3¢ | 6.2¢ | 6.7¢ | 8.0¢ | 9.1¢ | 7.7¢ | 9.8¢ |
| Total Gas Margin | $15,804,500 | $14,359,200 | $20,770,000 | $30,808,000 | $38,329,200 | $32,778,900 | $41,160,000 |
| Gas Margin per Unit per Day | $81.47 | $61.48 | $77.18 | $105.58 | $136.67 | $125.07 | $140.83 |
| Gasoline Gross Profit Dollars per Day divided by Total NCS Store Operating Days | | $40.68 | $54.22 | $76.35 | $95.11 | $94.13 | $108.76 |
| Gasoline Margin as a percent of Total Company Margin | | 7.95% | 9.39% | 12.62% | 15.66% | 14.67% | 16.39% |

## 7-ELEVEN GASOLINE DATA

| | YEAR ENDED 12/31/81 | YEAR ENDED 12/31/82 | YEAR ENDED 12/31/83 | YEAR ENDED 12/31/84 | YEAR ENDED 12/31/85 | YEAR ENDED 12/31/86 | YEAR ENDED* 12/31/87 |
|---|---|---|---|---|---|---|---|
| Total Gasoline Sales | $1,195,400,000 | $1,341,500,000 | $1,516,600,000 | $1,594,400,000 | $1,778,000,000 | $1,500,858,100 | $1,600,000,000 |
| Total Gallons Sold | 956,000,000 | 1,156,000,000 | 1,361,200,000 | 1,454,400,000 | 1,602,900,000 | 1,787,800,000 | 1,780,745,600 |
| Gas Operating Days | 869,112 | 975,125 | 1,064,615 | 1,130,940 | 1,165,425 | 1,242,468 | 1,302,843 |
| Average Gallons sold per Unit per Day | 1,100 | 1,185 | 1,279 | 1,286 | 1,375 | 1,439 | 1,367 |
| Average Gallons Sold per Unit per Month | 33,458 | 35,550 | 38,370 | 38,580 | 41,250 | 43,170 | 41,010 |
| Gross Profit per Gallon | | 6.2¢ | 5.9¢ | 7.0¢ | 7.4¢ | 9.4¢ | 8.7¢ |
| Gross Profit from Gasoline | | $72,100,000 | $80,500,000 | $102,200,000 | $119,200,000 | $168,053,000 | $154,924,800 |
| Gross Profit Dollars per Day per Gasoline Unit | | $73.93 | $75.61 | $90.37 | $102.38 | $135.25 | $118.93 |
| Gasoline Gross Profit Dollars per Day divided by total 7-Eleven Store operating days | | $27.88 | $30.49 | $37.80 | $43.56 | $60.62 | $54.80 |
| Average Retail Price per Gallon Sold | | | | $1.096 | $1.109 | $.839 | $.8885* |

*Gasoline Dollar Gasoline Sales are from their 10K of 12/31/87. Gallonage has been computed by dividing Circle K's average retail price for the year into the dollar gasoline sales that were given.

## DOLLARS PER DAY SURVEY GASOLINE

Assuming 3,917,368,377 gallons of gasoline is sold again in 1988:

| MARGIN PER GALLON | TOTAL GASOLINE MARGIN | MARGIN PER UNIT AT 1,198 GALLONS PER DAY |
|---|---|---|
| 10 | 391,736,837 | $119.80 |
| 9 | 352,563,140 | 107.82 |
| 8 | 313,389,460 | 95.84 |
| 7 | 274,215,780 | 83.86 |
| 6 | 235,042,090 | 71.88 |
| 5 | 195,868,410 | 59.90 |
| 4 | 156,694,730 | 47.92 |
| 3 | 117,521,040 | 35.94 |
| 2 | 78,347,366 | 23.96 |
| 1 | 39,173,683 | 11.98 |

The annual difference of 1 cent a gallon probably affects the Dollars Per Day Survey profits by $39,173,683. Had the Survey chains made 1.65 cents more the Survey would have broken even as a group (Total Survey Pretax Loss = margin at 1.65 cents a gallon = $ Zero Industry Loss for the year).

## BEWARE: OIL STATISTICS

There are no reliable figures on the oil business. Always use the rule: Don't believe any statistic unless you made it up yourself. We've looked at a lot of figures and we've talked to people who compute, tabulate, massage, guess, and borrow numbers. The bigger the source, the less reliable the number. No set of numbers appears reliable. The numbers published by various sources only agree when they've taken the other sources numbers without question. The business is big, and complicated. No one keeps figures the same way.

The figures on the following pages should be sufficient to give you a general idea of who and what is important in the gasoline business. It will show you the direction of the tide. Some of the statistics come from the government. Others come from the annual reports of the oil companies, and a few from National Petroleum news. The figures from the oil companies are fairly comparable, since most of them use the same accounting firms.

## UNITED STATES GASOLINE PRODUCT SALES AND SHARE OF MARKET

RANKED AS REPORTED IN THE ANNUAL REPORT

| COMPANY | THOUSANDS OF BARRELS PER DAY | GALLONS SOLD PER DAY (THOUSANDS) | GALLONS SOLD PER YEAR (MILLIONS) | % MARKET SHARE IN 109 BILLION GALLON MARKET |
|---|---|---|---|---|
| 1 Shell | 693 | 29,106,000 | 10,623,690 | 9.75% |
| 2 Chevron | 601 | 25,242,000 | 9,213,330 | 8.45 |
| 3 Texaco | 563 | 23,646,000 | 8,630,790 | 7.92 |
| 4 Exxon | 540 | 22,680,000 | 8,278,200 | 7.59 |
| 5 Amoco | 521 | 21,882,000 | 7,986,930 | 7.33 |
| 6 Mobil | 515 | 21,630,000 | 7,894,950 | 7.24 |
| 7 BP-America* | 401 | 16,854,000 | 6,151,929 | 5.64 |
| 8 Marathon | 301 | 12,642,000 | 4,614,330 | 4.23 |
| 9 Sun | 338 | 14,196,000 | 5,181,540 | 4.75 |
| 10 Union | 277 | 11,634,000 | 4,246,410 | 3.90 |
| 11 Phillips | 256 | 10,752,000 | 3,924,480 | 3.60 |
| 12 ARCO | 209 | 8,778,000 | 3,203,970 | 2.93 |
| Total for Schedule | 5,215 | 219,030,000 | 79,945,950 | 73.34% |

*NPN Figures
Formerly SOHIO

## MOTOR FUEL HIGHWAY CONSUMPTION

Comprises all fuels (gasoline, diesel and other fuels) used for propulsion of vehicles under state motor fuel laws.
Excludes federal purchases for military use.

| YEAR | TOTAL CONSUMPTION IN BILLIONS OF GALLONS | AVERAGE ANNUAL PERCENT CHANGE |
|---|---|---|
| 1960 | 57.9 | 4.0[1] |
| 1965 | 71.1 | 4.2 |
| 1970 | 92.3 | 5.4 |
| 1972 | 105.1 | 6.7 |
| 1973 | 110.5 | 6.2 |
| 1974 | 106.3 | -3.8 |
| 1975 | 109.0 | 2.5 |
| 1976 | 115.7 | 6.2 |
| 1977 | 119.6 | 3.4 |
| 1978 | 125.1 | 4.6 |
| 1979 | 122.1 | -2.4 |
| 1980 | 116.0 | -4.9 |
| 1981 | 115.2 | -.6 |
| 1982 | 112.3 | -2.3 |
| 1983 | 113.9 | 1.4 |
| 1984 | 118.6 | 4.1 |
| 1985 | 121.3 | 2.3 |
| 1986 | 125.2 | 3.2 |
| 1987 | 127.7 | 2.0 |

[1] Change from 1955

## TOTAL GASOLINE CONSUMPTION IN BILLIONS OF GALLONS

| YEAR | HIGHWAY | NON-HIGHWAY | TOTAL GASOLINE USE | AVERAGE ANNUAL PERCENT CHANGE |
|---|---|---|---|---|
| 1978 | 112.2 | 3.6 | 115.8 | — |
| 1979 | 108.1 | 3.7 | 111.8 | -3.5% |
| 1980 | 101.2 | 3.6 | 104.8 | -6.3% |
| 1981 | 99.6 | 3.5 | 103.1 | -1.6% |
| 1982 | 98.5 | 3.3 | 101.8 | -1.3% |
| 1983 | 99.4 | 3.2 | 102.6 | .8% |
| 1984 | 101.4 | 3.9 | 105.4 | 2.7% |
| 1985 | 103.6 | 4.0 | 107.6 | 2.2% |
| 1986 | 106.8 | 4.0 | 110.8 | 3.0% |
| 1987 | 108.7 | 4.1 | 112.8 | 1.8% |

Source: U.S. Federal Highway Administration, Highway Statistics Annual.

## SUMMARY OF AVERAGE FUEL ECONOMY PERFORMANCE NEW PASSENGER AUTOMOBILES (MILES PER GALLON)

| | MODEL YEAR 1979 | MODEL YEAR 1980 | MODEL YEAR 1981 | MODEL YEAR 1982 | MODEL YEAR 1983 | MODEL YEAR 1984 | MODEL YEAR 1985 | MODEL YEAR 1986 | MODEL YEAR 1987 | MODEL YEAR 1988 |
|---|---|---|---|---|---|---|---|---|---|---|
| Passenger Cars: | | | | | | | | | | |
| New U.S.-made Averages | 19.3 | 21.9 | 23.5 | 24.5 | 24.2 | 25.3 | 26.1 | 26.6 | 26.7 | 27.3 |
| New Imported Car Averages | 26.1 | 28.6 | 30.6 | 30.7 | 31.8 | 31.2 | 30.8 | 31.5 | 31.0 | 31.3 |
| New Cars Combined Averages | 20.3 | 23.5 | 25.2 | 26.1 | 26.0 | 26.5 | 27.3 | 27.9 | 28.2 | 28.7 |
| Light Trucks: | | | | | | | | | | |
| New U.S.-made Averages | 17.7 | 16.8 | 18.3 | 19.2 | 19.6 | 19.3 | 19.7 | 20.0 | 20.4 | 20.7 |
| New Imported Averages | 20.8 | 24.4 | 27.4 | 27.0 | 27.5 | 26.8 | 26.4 | 26.1 | 25.3 | 24.5 |
| New Combined Averages | 18.2 | 18.5 | 20.1 | 20.6 | 20.8 | 20.5 | 20.6 | 21.4 | 21.6 | 21.4 |
| Combined New Car and Light Truck Averages | 20.1 | 22.5 | 24.1 | 24.8 | 24.6 | 24.8 | 25.2 | 25.7 | 26.0 | 25.9 |

Source: U.S. Department of Transportation.

## TOTAL MOTOR VEHICLES, MOTOR VEHICLE REGISTRATIONS, AND NEW CAR SALES

| YEAR | TOTAL MOTOR VEHICLES | TOTAL U.S. NEW AUTOMOBILE SALES INCLUDING IMPORTS | TOTAL AUTOMOBILES PRIVATE, PUBLIC AND COMMERCIAL | NET ANNUAL INCREASE IN TOTAL AUTOMOBILE REGISTRATION | AVERAGE ANNUAL PERCENT INCREASE IN REGISTRATION |
|---|---|---|---|---|---|
| 1950 | 49,200,000 | | 40,400,000 | | 7.4% |
| 1960 | 73,900,000 | | 61,700,000 | | 3.3% |
| 1970 | 108,400,000 | | 89,200,000 | | 3.2% |
| 1975 | 132,900,000 | | 106,700,000 | | 2.3% |
| 1976 | 138,500,000 | | 110,400,000 | 3,700,000 | 4.2% |
| 1977 | 142,400,000 | 11,183,412 | 112,300,000 | 1,900,000 | 2.8% |
| 1978 | 148,800,000 | 11,314,079 | 116,600,000 | 4,300,000 | 4.5% |
| 1979 | 154,118,099 | 10,673,435 | 120,247,990 | 3,647,990 | 3.6% |
| 1980 | 155,889,692 | 8,979,194 | 121,723,650 | 1,475,660 | 1.1% |
| 1981 | 158,456,511 | 8,536,758 | 123,461,507 | 1,757,857 | 1.6% |
| 1982 | 159,449,166 | 7,980,800 | 123,746,128 | 284,621 | 0.2% |
| 1983 | 163,861,169 | 8,924,186 | 126,138,236 | 2,392,108 | 1.9% |
| 1984 | 166,497,670 | 10,393,230 | 127,866,900 | 1,728,664 | 1.4% |
| 1985 | 171,688,678 | 11,045,784 | 132,097,525 | 4,230,625 | 3.3% |
| 1986 | 176,191,339 | 11,461,092 | 135,431,112 | 3,333,587 | 2.5% |
| 1987 | 179,044,449 | 10,278,000 | 137,323,632 | 1,892,520 | 1.4% |

Source: Registrations — U.S. Federal Highway Administration Statistics.
Figures from 1978 and before from Federal Highway Administration, Highway Statistics as reported in the Statistical Abstract of the United States, 1980.

# U.S. Petroleum Supply

*by Herbert Franklin and*
*Irvin Chamberlain*

## Overview

Demand for petroleum products increased by nearly 0.4 million barrels per day in 1987; this increase was about two-thirds of the 1986 increase. (Demand is measured as "Product Supplied" in the *Petroleum Supply Annual*, and the term is used interchangeably with the term "consumption" throughout this text.) The increased use of petroleum products can be attributed primarily to a 2.7-percent economic expansion (defined as growth in real gross national product) and to an increase of about 1 percent in real disposable personal income, which induced heavier travel.[1] The increase was moderated somewhat by increasing petroleum prices and by winter temperatures that were warmer than normal.

U.S. petroleum supply activity in 1987 was relatively uneventful by comparison with the dramatic events of 1986. It was a year of slow recovery for the exploration and production sectors of the U.S. petroleum industry, which suffered so severely from the plunge in crude oil prices during 1986. The recovery, as evidenced by increased drilling activity (average number of rotary rigs in operation), was not apparent until July when the average number of rotary rigs in operation increased 14 percent over the June average; thereafter, the average number of rotary rigs in operation increased monthly for the remainder of the year.

Uncertainty about the level and stability of crude oil prices in the early months of 1987 may have slowed the turnaround in drilling activities, as investors watched efforts by the Organization of Petroleum Exporting Countries (OPEC) to stabilize prices around a reference price of $18.00 per barrel. By March, the OPEC had reduced crude oil production to 15.85 million barrels per day[2], and imported crude oil prices rose steadily through July. As these trends boosted producer optimism, drilling activity moved sharply upward in July and remained relatively high for the remainder of the year.

Although drilling activity did increase substantially in the latter part of 1987, average drilling activity for the year dropped nearly 3 percent from the low levels of 1986. This is the third consecutive annual decline in drilling activity and most likely will contribute to a further decline in the number of producing wells, resulting in lower domestic production for the next few years.

U.S. crude oil production, which is heavily dependent on continued high levels of drilling activity, declined more than 0.3 million barrels per day from the 1986 level. The crude oil production decline was partially offset by increased natural gas liquids production. The net change in liquid hydrocarbon (crude oil plus natural gas liquids) production for 1987 was a decline of nearly 0.3 million barrels per day. The 1987 decline in crude oil production is probably a result of the decline in drilling activity since 1985, as well as the fact that a large number of stripper wells (wells producing less than 10 barrels per day) that ceased operations in 1986 remained closed.

An increase in petroleum imports was needed to help satisfy growing demand as indigenous production of liquid hydrocarbons dropped for the second straight year. Crude oil imports rose by 0.50 million barrels per day, while product imports declined by more than 0.04 million barrels per day. Most of the imported crude oil was used to meet current demand, but a crude oil stock build of 0.13 million barrels per day implies that a significant portion of the imported crude oil may have been purchased because of the availability of crude oil at bargain prices late in the year.

The year ended on a note of uncertainty as the OPEC extended its June 1987 agreement on production quotas and a crude oil

**Note: Unless otherwise referenced, all data reported in this article are from Energy Information Administration publications: *Annual Energy Review* 1986, DOE/EIA-0384(86); *Monthly Energy Review*, December 1987, DOE/EIA-0035 (87/12); and *Petroleum Supply Annual* 1987, Volume 1, DOE/EIA-0340 (87/1), and predecessor reports.**

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[1] Energy Information Administration, *Short-Term Energy Outlook*, January 1988, DOE/EIA-0202 (88/1Q), (Washington, DC, February 1988), Table 4.
[2] Energy Information Administration, International Contingency and Information Division, International Statistics Data Base, April 1988.

reference price of $18.00 per barrel. The same agreement had been violated repeatedly during the latter half of 1987, especially in August when OPEC production exceeded its 16.6 million barrel-per-day ceiling by 3.8 million barrels per day.[3] Continuation of the same agreement without enforcement of the production quotas is likely to perpetuate oversupply and pricing problems. Within the week following the OPEC agreement in December, spot market prices did indeed plunge to their lowest levels in a year.[4]

## Product Demand

The primary factors that affect change in petroleum product demand are national economic growth trends, petroleum price levels, weather conditions, and efforts to conserve petroleum.

Economic expansion is a strong stimulus for increased consumption of petroleum products on a broad scale. Increased industrial production, transport of goods, provision of services, and sales activities all require greater volumes of fuel. A secondary factor that is related to the state of the economy is the amount of disposable income that is available; an expanding economy increases disposable personal income and the amount of personal funds that can be spent on travel and petrochemical products. Conversely, economic recession contracts the various economic activities outlined above, and petroleum use declines.

Low petroleum prices tend to increase purchases of fuel and petroleum-based products. Discretionary efforts to conserve petroleum fuel are reduced; for example, individuals feel free to drive larger, less fuel-efficient vehicles and to travel more miles. Electric utility and industrial plants will substitute lower-priced petroleum fuel and petrochemical feedstocks for more expensive fuel types wherever dual-fired boilers or suitable petrochemical processing equipment permit such substitution. When petroleum prices are relatively high, these trends are reversed.

Weather changes have an obvious impact on the use of heating fuels in winter. During the summer, additional volumes of residual fuel oil are required as a primary fuel for generating electricity used in air conditioning units.

The need to conserve scarce U.S. petroleum supplies became evident during the Arab oil embargo of 1973. Soon thereafter, the Federal Government mandated several far-reaching conservation programs. One of the most significant was the Corporate Average Fuel Economy (CAFE) Standards Program, which led to the manufacture of an ever-increasing number of smaller, more fuel-efficient automobiles. Over time, this one broad-scale conservation measure has had a tremendous impact on the consumption of motor gasoline. The U.S. passenger car fleet increased its fuel efficiency (miles traveled per gallon) by nearly 38 percent from 1973 to 1986. Another Government-mandated conservation program that led to broad-scale savings was the establishment of a national speed limit of 55 miles per hour on interstate highways. This conservation measure was relaxed during 1987 by permitting speed limits up to 65 miles per hour if approved by State governments. In addition to mandated programs, tax incentives induced improvement in building insulation and installation of high-efficiency heating and cooling equipment.

The impact of these and other conservation efforts has been felt throughout the economy. The amount of petroleum consumed per dollar of Gross National Product (GNP) can be used as a measure of the general effectiveness of conservation efforts that pervade the entire U.S. economy. In terms of thousand Btu consumed per 1982 dollar of GNP, petroleum consumption declined from 12.70 in 1973 to 8.54 in 1987 (Table FE1). This represents a 33 percent reduction in petroleum use based on the GNP expressed in constant dollars.

### Table FE1. Petroleum Consumption per Constant Dollar of GNP [1]

| | GNP [1] (trillion 1982 dollars) | Petroleum Consumption (quadrillion Btu) | Petroleum Consumption per Constant Dollar of GNP [1] (thousand Btu per 1982 dollar) |
|---|---|---|---|
| 1973 | 2.744 | 34.840 | 12.70 |
| 1978 | 3.115 | 37.965 | 12.19 |
| 1983 | 3.279 | 30.054 | 9.17 |
| 1987 | 3.820 | 32.627 | 8.54 |

[1] GNP = Gross National Product.

Source: Energy Information Administration, *Monthly Energy Review*, December 1987, Tables 1.4 and 1.7.

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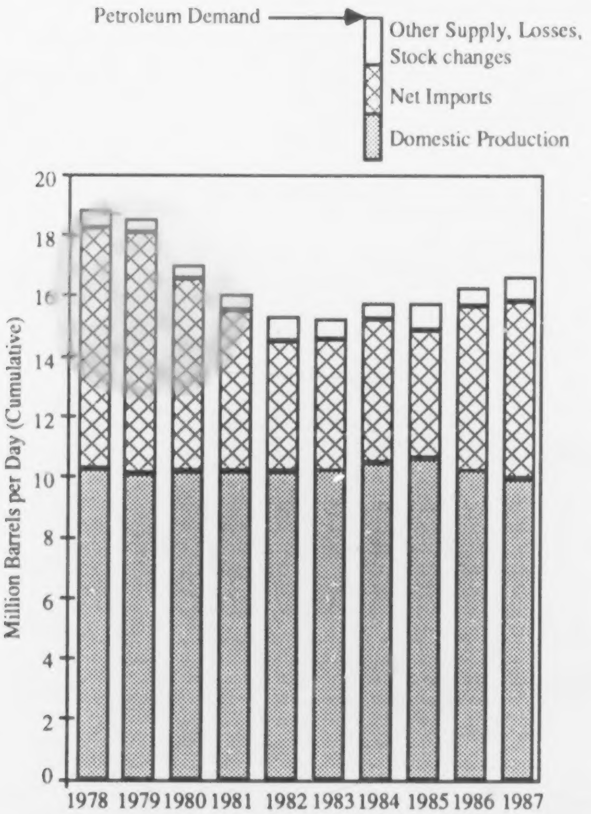
[3] Energy Information Administration, International Contingency and Information Division, International Statistics Data Base, April 1988.

[4] Petroleum Intelligence Weekly, *Marketview*, (New York, NY, December 21, 1987), p. 6.

Domestic demand for petroleum products declined for 5 consecutive years from a peak of 18.8 million barrels per day in 1978 to 15.2 million barrels per day in 1983 (Figure FE1). This decline resulted from mandated and price-induced conservation plus economic downturns in 1980 and 1982. During 1984 and 1985, improving economic conditions and declining petroleum prices resulted in a higher level of demand. Total petroleum product demand climbed sharply to 16.3 million barrels per day in 1986, an increase of nearly 0.6 million barrels per day over the 1985 level. This surge in demand was stimulated by a precipitous drop in crude oil prices and continued economic expansion.

During 1987, petroleum product demand rose to 16.7 million barrels per day, largely on the strength of a moderate 2.7 percent growth in economic activity. However, the 1987 increase in petroleum demand was only about two-thirds that of the 1986 increase. This slowdown in the rate of demand growth can be attributed in large part to an increase in petroleum prices, which may have induced some discretionary conservation efforts. Perhaps the most significant factor in causing the slowdown was the substitution by electric utilities of natural gas for relatively expensive residual fuel oil. Winter temperatures were slightly above normal and did not significantly affect 1987 petroleum demand growth.

**Figure FE1. Petroleum Supply and Demand, 1978-1987 [1]**



[1] Petroleum demand is measured as product supplied.

Source: Energy Information Administration, *Petroleum Supply Annual 1987*, Volume 1, Table 3, and predecessor reports.

## Motor Gasoline

Motor Gasoline consumption increased to 7.2 million barrels per day in 1987. This can be attributed mainly to general economic expansion and a 1 percent growth in personal disposable income which resulted in higher levels of business and recreational travel.

The 1987 increase in motor gasoline demand marks the fifth consecutive annual increase, but consumption still remains below the peak level of 1978 (Table FE2). This illustrates the effectiveness of the broad-scale conservation programs oriented toward motor gasoline (CAFE standards and national highway speed limit) and of individual discretionary conservation efforts (e.g., carpooling). The effectiveness of conservation is especially emphasized by the relatively low use of gasoline despite the fact that real gasoline costs remained near the record low levels of 1986.

## Distillate Fuel Oil

Distillate fuel oil is used principally in the transportation sector of the economy to power buses, trucks, trains, and a small percentage of passenger vehicles. Other significant uses are for heating residential and commercial buildings and for firing industrial and electric utility boilers.

Demand for distillate fuel oil rose to a level of 3.0 million barrels per day in 1987. The growth in demand helped meet the increased transportation and industrial needs of the growing economy. Because of a warmer than normal winter, heating use was not much of a factor in the increased use of distillate fuel oil.

## Residual Fuel Oil

The most important use of residual fuel oil is as a primary fuel for electric utility plants. Next in importance is its use as a bunkering fuel in ocean-going vessels, and close behind that, as a boiler fuel at industrial plants. A fourth and relatively minor use is as a heating fuel in commercial buildings.

# Refinery Capacity and Utilization

Crude oil distillation capacity is sometimes used as a general measure of the U.S. petroleum industry's ability to satisfy petroleum product demand by use of domestic processing facilities. Over the long term, refinery distillation capacity has generally increased or decreased in parallel with product demand. U.S. distillation capacity ordinarily trails demand, but an abrupt downturn and subsequent steep decline in demand from 1979 through 1983 resulted in excessive crude oil distillation capacity. This situation persisted until 1985 by which time crude oil distillation capacity had been reduced to a level slightly below product demand.

The rate at which distillation capacity is utilized is a measure of the ability of U.S. refiners to meet short-term changes in petroleum product requirements. The utilization rate can also be used as a measure of efficient refinery operation. The rate of utilization can fluctuate widely because changes in petroleum product demand and the resulting changes in refinery operations occur more rapidly than changes in crude oil distillation capacity.

Crude oil distillation capacity was utilized at an average rate of more than 90 percent during the 30-year period from 1950 through 1979. This sustained high rate of utilization is a general benchmark for efficient levels of distillation capacity use. From 1980 through 1985, when distillation capacity exceeded petroleum product demand, the average distillation capacity utilization rate dropped to a less efficient 73 percent, as a large portion of distillation capacity remained idle.

In 1986, refinery efficiency improved as the annual average distillation capacity utilization rate increased to nearly 83 percent. Crude oil distillation capacity declined to 15.5 million barrels per day and petroleum product demand rose sharply to 16.3 million barrels per day. Consequently, it was necessary to use a larger portion of remaining distillation capacity to meet the higher level of demand.

Utilization of distillation capacity reached 83.1 percent during 1987 as distillation capacity expanded to 15.6 million barrels per day; refinery output increased by 0.1 million barrels per day.

On the basis of the high-level utilization of distillation capacity that prevailed for so many years, it appears that the current U.S. distillation capacity could accommodate a substantial increase in petroleum product demand. However, the National Petroleum Council estimated maximum output of motor gasoline by U.S. refineries by 1988 to average 6.8 million barrels per day.[14] U.S. refineries reached this limit in 1987; therefore, without expansion of U.S. refinery conversion and octane-enhancement processing capability, the spare distillation capacity by itself may not continue to yield enough motor gasoline for U.S. needs.

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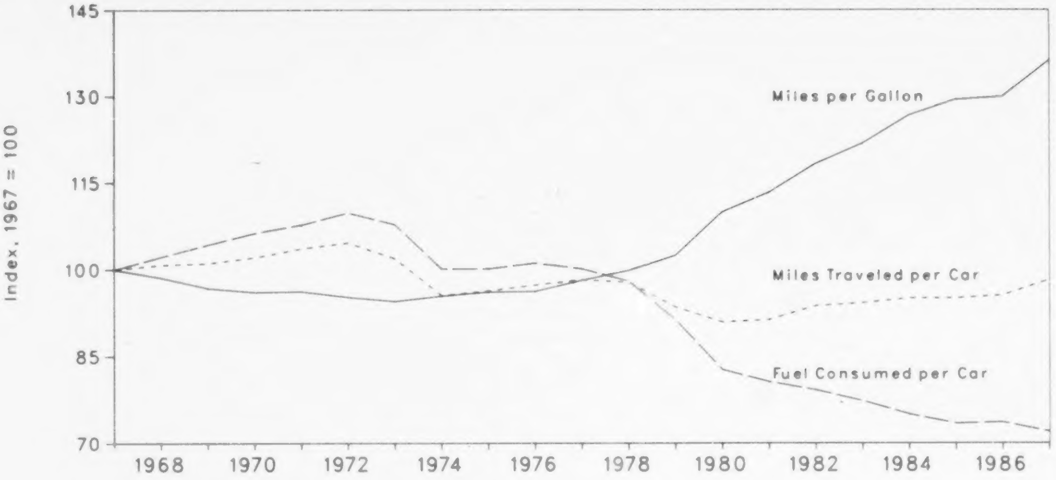
[14] National Petroleum Council, *U.S. Petroleum Refining*, (Washington, DC, October 1986), pp. 5, 6.

## Figure 1.9 Passenger Car Efficiency



## Table 1.10 Passenger Car Efficiency

| | Average Fuel Consumed per Car | | Average Miles Traveled per Car | | Average Miles Traveled per Gallon of Fuel Consumed | |
|---|---|---|---|---|---|---|
| | Gallons | Index | Miles | Index | Miles | Index |
| 1967 | 715 | 100.0 | 10,060 | 100.0 | 14.07 | 100.0 |
| 1968 | 731 | 102.2 | 10,144 | 100.8 | 13.87 | 98.6 |
| 1969 | 746 | 104.3 | 10,158 | 101.0 | 13.62 | 96.8 |
| 1970 | 760 | 106.3 | 10,272 | 102.1 | 13.52 | 96.1 |
| 1971 | 770 | 107.7 | 10,422 | 103.6 | 13.54 | 96.2 |
| 1972 | 785 | 109.8 | 10,521 | 104.6 | 13.40 | 95.2 |
| 1973 | 771 | 107.8 | 10,256 | 101.9 | 13.30 | 94.5 |
| 1974 | 716 | 100.1 | 9,606 | 95.5 | 13.42 | 95.4 |
| 1975 | 716 | 100.1 | 9,690 | 96.3 | 13.52 | 96.1 |
| 1976 | 723 | 101.1 | 9,785 | 97.3 | 13.53 | 96.2 |
| 1977 | 716 | 100.1 | 9,879 | 98.2 | 13.80 | 98.1 |
| 1978 | 701 | 98.0 | 9,835 | 97.8 | 14.04 | 99.8 |
| 1979 | 653 | 91.3 | 9,403 | 93.5 | 14.41 | 102.4 |
| 1980 | 591 | 82.7 | 9,141 | 90.9 | 15.46 | 109.9 |
| 1981 | 576 | 80.6 | 9,186 | 91.3 | 15.94 | 113.3 |
| 1982 | 566 | 79.2 | 9,428 | 93.7 | 16.65 | 118.3 |
| 1983 | 553 | 77.3 | 9,475 | 94.2 | 17.14 | 121.8 |
| 1984 | 536 | 75.0 | 9,558 | 95.0 | 17.83 | 126.7 |
| 1985 | 525 | 73.4 | 9,560 | 95.0 | 18.20 | 129.4 |
| 1986 | R 526 | R 73.6 | R 9,608 | R 95.5 | R 18.27 | R 129.9 |
| 1987[a] | 515 | 72.0 | 9,883 | 98.2 | 19.17 | 136.2 |

R = Revised data.

Note: Geographic coverage is the 50 States and the District of Columbia.

Sources: See end of section.

## COMPARISON OF STATIONS OPERATED BY THE 12 MAJOR OIL COMPANIES

AS REPORTED IN THEIR ANNUAL REPORTS AND 10 K'S OR NPN

| COMPANY | 1980 # OF STATIONS | 1981 # OF STATIONS | 1982 # OF STATIONS | 1983 # OF STATIONS | 1984 # OF STATIONS | 1985 # OF STATIONS | 1986 # OF STATIONS | 1987 # OF STATIONS | INCREASE OR DECREASE | TOTAL INCREASE OR DECREASE SINCE 1980 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Texaco | 24,000 | 21,000 | 18,000 | 18,000 | 19,558 | 18,718* | 18,939* | 17,623* | -1,316 | -6,377 |
| 2. Exxon | 22,886 | 20,585 | 20,600 | 18,707 | 18,139 | 17,427* | 14,468* | 13,451* | -1,017 | -9,435 |
| 3. Amoco | 21,300 | 20,100 | 17,800 | 17,800 | 15,700 | 15,100 | 12,400 | 11,400 | -1,000 | -9,900 |
| 4. Shell | 15,400 | 13,700 | 13,300 | 12,100 | 11,000 | 11,200 | 10,900 | 10,900 | — | -4,500 |
| 5. ARCO | 8,200 | 7,122 | 5,260 | 4,400 | 3,900 | 1,750 | 1,700 | 1,750 | 50 | -6,450 |
| 6. Mobil | 17,425 | 16,564 | 16,216 | 15,403 | 13,862 | 13,310 | 12,735 | 11,795 | -940 | -5,630 |
| 7. Chevron | 12,139 | 11,586 | 11,295 | 11,206 | 24,981 | 18,898 | 14,132 | 12,928 | -1,204 | 789 |
| 8. Marathon | 2,789 | 2,903 | 2,998 | 3,372 | 3,588 | 3,722 | 3,730 | 2,488 | -1,242 | -301 |
| 9. BP-America | 2,300 | 2,300 | 2,200 | 2,100 | 3,000 | 2,900 | 2,800 | 7,716[1]* | 4,916 | 5,416 |
| 10. Sun | 9,231 | 8,736 | 7,665 | 6,700 | 7,348 | 6,807 | 6,534 | 5,800 | -734 | -3,431 |
| 11. Phillips | 12,805 | 13,900 | 13,900 | 12,000 | 10,500 | 10,505* | 10,669* | 10,731* | 62 | -2,074 |
| 12. Union | 12,300 | 12,500 | 12,700 | 11,200 | 10,400 | 10,400 | 10,300 | 10,900 | 600 | -1,400 |
| Totals | 160,775 | 150,996 | 141,934 | 132,988 | 141,976 | 130,737 | 119,307 | 117,482 | -1,825 | -43,293 |

Source: Annual Reports of these companies.
These companies combined operate 00% less stations in 1987 than in 1980.
*Source NPN
[1] Includes Boron, BP Oil, Gulf Products Division

## AVERAGE GALLONAGE PER STATION

If all of the gasoline reported sold by these companies was sold through the stations listed as being operated by these companies, the average gallonage in these stations would be as follows. We have been told by one of these companies that their figures include product exchanges and that some of the other companies also use this practice.

| COMPANY | 1987 # OF STATIONS | TOTAL GALLONS SOLD PER YEAR (THOUSANDS) | AVERAGE GALLONS SOLD PER STATION PER YEAR | AVERAGE GALLONS SOLD PER STATION PER MONTH | AVERAGE GALLONS SOLD PER STATION PER DAY | INCREASE OR DECREASE FROM 1986 |
|---|---|---|---|---|---|---|
| 1. Texaco | 17,623 | 8,630,790 | 489,745 | 40,230 | 1,341 | 77 |
| 2. Exxon | 13,451 | 8,278,200 | 615,390 | 50,580 | 1,686 | 92 |
| 3. Amoco | 11,400 | 7,986,930 | 700,607 | 57,570 | 1,919 | 148 |
| 4. Shell | 10,900 | 10,623,690 | 974,650 | 80,100 | 2,670 | 282 |
| 5. ARCO | 1,750 | 3,203,970 | 1,830,840 | 150,480 | 5,016 | 396 |
| 6. Mobil | 11,795 | 7,894,950 | 669,045 | 54,990 | 1,833 | 230 |
| 7. Chevron | 12,928 | 9,213,330 | 712,480 | 58,560 | 1,952 | 108 |
| 8. Marathon | 2,488 | 4,614,330 | 1,854,634 | 152,430 | 5,081 | 1,847 |
| 9. BP-America | 7,716 | 6,151,929 | 797,295 | 65,520 | 2,184 | -3,156 |
| 10. Sun | 5,800 | 5,181,540 | 893,368 | 73,410 | 2,447 | 671 |
| 11. Phillips | 10,731 | 3,924,480 | 365,714 | 30,030 | 1,001 | 44 |
| 12. Union | 10,900 | 4,246,410 | 389,578 | 32,010 | 1,067 | 7 |
| Total for Top 12 Companies | 117,482 | 79,945,950 | 680,495 | 55,920 | 1,864 | 87 |

## OIL COMPANIES RANKED BY AVERAGE GALLONS PER STATION PER DAY

Assuming all gasoline sales reported by company were sold through the stations listed in annual report, and no outside gasoline was purchased for the stations reported.

| COMPANY | AVERAGE GALLONS SOLD PER STATION PER DAY |
|---|---|
| 1. Marathon | 5,081 |
| 2. ARCO | 5,016 |
| 3. Shell | 2,670 |
| 4. Sun | 2,447 |
| 5. BP-America | 2,184 |
| 6. Chevron | 1,952 |
| 7. Amoco | 1,919 |
| 8. Mobil | 1,833 |
| 9. Exxon | 1,686 |
| 10. Texaco | 1,341 |
| 11. Union | 1,067 |
| 12. Phillips | 1,001 |
| Average | 1,864 |

# COMPARISON OF AVERAGE RETURN ON EQUITY OF THE 12 OIL COMPANIES THAT PRODUCE 73% OF THE GASOLINE REFINED IN THE UNITED STATES

| COMPANY | AVG. RETURN ON EQUITY IN 1980 | AVG. RETURN ON EQUITY IN 1981 | AVG. RETURN ON EQUITY IN 1982 | AVG. RETURN ON EQUITY IN 1983 | AVG. RETURN ON EQUITY IN 1984 | AVG. RETURN ON EQUITY IN 1985 | AVG. RETURN ON EQUITY IN 1986 | AVG. RETURN ON EQUITY IN 1987 | DIFFERENCE 1987 VS. 1986 | DIFFERENCE 1987 VS. 1980 | % DECREASE RETURN ON EQUITY 1980 VS. 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Texaco | 21.1% | 17.6% | 9.2% | 8.6% | 1.8% | 9.2% | 5.3% | -38.5% | -43.8% | -59.6% | -282% |
| 2. Exxon | 21.8% | 17.8% | 14.9% | 17.2% | 19.0% | 16.8% | 17.5% | 14.7% | -2.8% | -7% | -33% |
| 3. Amoco | 21.6% | 19.2% | 16.5% | 15.7% | 17.5% | 16.2% | 6.5% | 11.6% | 5.1% | -10% | -54% |
| 4. Shell | 22.0% | 21.0% | 17.4% | 15.9% | 15.6% | 13.2% | 6.2% | 12.0% | 5.8% | -10% | -45% |
| 5. ARCO | 24.4% | 20.8% | 18.1% | 14.9% | 13.4% | -2.6% | 11.4% | 22% | 10.6% | -2% | -8% |
| 6. Mobil | 23.9% | 17.6% | 9.4% | 10.8% | 9.2% | 7.5% | 9.6% | 7.9% | -1.7% | -18% | -75% |
| 7. Chevron | 21.7% | 20.0% | 10.6% | 11.6% | 10.6% | 10.2% | 4.6% | 6.4% | 1.8% | -15% | -71% |
| 8. Marathon | 21.0% | 16.6% | -5.6% | -20.7% | 8.5% | 7.5% | -31.2% | 3.8% | 35.0% | -17% | -82% |
| 9. BP-America | 39.7% | 31.0% | 28.5% | 19.7% | 18.1% | 3.8% | -4.6% | 13.4%* | — | — | — |
| 10. Sun | 16.8% | 21.5% | 10.5% | 8.7% | 10.2% | 10.0% | 7.3% | 6.6% | -.7% | 10% | -61% |
| 11. Phillips | 23.8% | 16.9% | 11.4% | 12.1% | 12.7% | 14.7% | 13.5% | 2.1% | -11.4% | -22% | -91% |
| 12. Union | 20.1% | 20.8% | 18.2% | 12.6% | 12.7% | 8.9% | 10.6% | 10.5% | -.1% | -10% | -48% |

Source: Annual Reports of these companies.
*BP beginning this year

# 12 MAJOR REFINERS REPRESENTING 73% OF THE NATIONAL GASOLINE MARKET
# UNITED STATES GASOLINE PRODUCT SALES
THOUSANDS OF BARRELS DAILY

| COMPANY | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | INCREASE OR DECREASE | PERCENT INCREASE OR DECREASE |
|---|---|---|---|---|---|---|---|---|---|
| 1 Texaco | 404 | 388 | 421 | 565 | 560 | 570 | 563 | -7 | -1% |
| 2 Exxon | 489 | 492 | 505 | 514 | 539 | 549 | 540 | -9 | -2% |
| 3 Amoco | 474 | 477 | 469 | 481 | 510 | 523 | 521 | -2 | — |
| 4 Shell | 470 | 459 | 465 | 477 | 515 | 620 | 693 | 73 | 12% |
| 5 ARCO | 292 | 324 | 369 | 401 | 184 | 187 | 209 | 22 | 12% |
| 6 Mobil | 363 | 378 | 386 | 386 | 452 | 486 | 515 | 29 | 6% |
| 7 Chevron | 387 | 354 | 370 | 386 | 618 | 594 | 601 | 7 | 1% |
| 8 Marathon—U.S.X. | — | 241 | 245 | 266 | 265 | 288 | 301 | 13 | 5% |
| 9 BP-America | 246 | 244 | 267 | 257 | 349 | 356 | 401 | 45 | 13% |
| 10 Sun | 256 | 275 | 263 | 250 | 272 | 277 | 338* | 61 | 22% |
| 11 Phillips | 209 | 216 | 212 | 218 | 239 | 243 | 256 | 13 | 5% |
| 12 Union | 218 | 213 | 227 | 232 | 243 | 260 | 277 | 17 | 7% |
| Total 12 Major Refiners | 3808 | 4061 | 4199 | 4433 | 4746 | 4953 | 5215 | | |

These 12 refiners sold 00,000,000,000 gallons of gasoline in 1987 or 00.0% of all the gasoline used in the United States in 1987.

*Now includes refined product trading activities.

# A SUMMARY OF INFORMATION ON THE COMPANIES IN:

## WHAT DO THE 12 LARGEST OIL COMPANIES HAVE TO SAY ABOUT GASOLINE MARKETING IN 1988

| COMPANY | # OF STATIONS | # OF PAGES IN ANNUAL REPORT | PAGES DEVOTED TO GASOLINE MARKETING | PERCENTAGE OF COMPANY STOCK OWNED BY OFFICERS AND DIRECTORS | AVERAGE RETURN ON SHAREHOLDER'S EQUITY IN 1987 |
|---|---|---|---|---|---|
| 1. Texaco | 17,623 | 47 | 1/3 | Less than 1% | -38.5% |
| 2. Exxon | 13,451 | 44 | 2 | Less than | 14.7% |
| 3. Amoco | 11,400 | 53 | 3 | N/A | 11.6% |
| 4. Shell | 10,900 | 49 |  | N/A | 12.0% |
| 5. ARCO | 1,750 | 65 | 1 | Less than 1% | 22% |
| 6. Mobil | 11,795 | 53 | 2 | 1.2% | 7.9% |
| 7. Chevron | 12,928 | 61 | 3 | Less than 1/10th of 1% | 6.4% |
| 8. Marathon | 2,488 | 61 |  | Less than 1% | 3.8% |
| 9. BP-America | 7,716 | 60 |  | N/A | 13.4% |
| 10. Sun | 5,800 | 49 | 1-1/2 | N/A | 6.6% |
| 11. Phillips | 10,731 | 53 | 1-1/2 | Less than 1% | 2.1% |
| 12. Union | 10,900 | 57 | 1-1/2 | Less than 1% | 10.5% |
| Total | 117,482 | 652 | 15-5/6 |  |  |

## TEXACO, INCORPORATED

EXCERPT FROM THE ANNUAL REPORT OF TEXACO, INC., 12.31.87

### Marketing

The name of the gasoline retailing game is to bring customers into your station. Texaco's network of trend-setting and profitable *System 2000* retail outlets is doing just that, attracting customers with quality products and one-stop service, including the convenience of a food mart and car wash. At year-end, there were some 1,200 of these outlets, about half of them developed by Texaco wholesalers, with gasoline sales averaging over 156,000 gallons a month–among the highest in the industry. The *System 2000* concept, with its built-in operational efficiencies and one of the best-known trade marks in the oil business–the Texaco Star–has helped increase the Company's share in preferred markets–those with the greatest profit potential–to nearly 12%.

Texaco's new advertising campaign, with its "Star of the American Road" theme, debuted in regional test markets in 1987 to promote the modern *System 2000* retail outlets. After a nationwide introduction during the televised Winter Olympics in February, 1988, the commercials will continue to be aired in key markets throughout the country to enhance continued brand awareness and improve sales.

Downstream, Texaco continued selective investments in its domestic refining system to cut manufacturing costs and to increase the yield of higher valued products, such as gasoline and aviation and diesel fuels.

In marketing, Texaco U.S.A. further expanded its highly successful and profitable *System 2000* retail outlet network by reinvesting proceeds from the sale of underperforming assets. The division implemented new programs in the retail, wholesale, and lubricant lines of business–each intended to maximize revenue and profitability. Texaco also consolidated and restructured its marketing field operations to reduce expenses.

In 1987, the profitable marketing operations were more than offset by losses in the manufacturing area due to increased crude costs. In the long-term, however, the strategies initiated by Texaco will enable its downstream operations to compete with better results under more advantageous market conditions.

# Refining and Marketing

**BUSINESS PROFILE — Refining and Marketing**
*(including International Marine)*

| | 1986 | 1987 |
|---|---|---|
| | *millions of dollars* | |
| **Earnings** | | |
| United States | 478 | 32 |
| Foreign | 1,456 | 457 |
| Total | 1,934 | 489 |
| **Average capital employed** | | |
| United States | 2,697 | 2,865 |
| Foreign | 7,377 | 8,355 |
| Total | 10,074 | 11,220 |
| **Capital expenditures** | | |
| United States | 501 | 409 |
| Foreign | 1,044 | 849 |
| Total | 1,545 | 1,258 |
| **Research and development costs** | 107 | 101 |
| | *percent* | |
| **Return on average capital employed** | | |
| United States | 17.7 | 1.1 |
| Foreign | 19.7 | 5.5 |
| Total | 19.2 | 4.4 |
| | *thousands of barrels daily* | |
| **Petroleum product sales** | | |
| United States | 1,106 | 1,057 |
| Foreign | 2,937 | 2,986 |
| Total | 4,043 | 4,043 |
| **Refinery crude oil runs** | | |
| United States | 1,080 | 1,026 |
| Foreign | 1,952 | 1,955 |
| Total | 3,032 | 2,981 |
| | *millions of deadweight tons* | |
| **Average worldwide marine capacity** | | |
| Owned vessels | 8.7 | 8.1 |
| Chartered vessels | 1.5 | 1.1 |
| Total | 10.2 | 9.2 |

### *Margin squeeze reduced downstream earnings by 75 percent. Impact most severe in U.S., Europe.*

Earnings from refining and marketing operations dropped sharply from the high levels of the previous year, as product margins were squeezed by higher crude oil prices combined with intense competition and continued overcapacity in the industry.

The lag between changes in crude oil prices and changes in product prices, which helped downstream results in 1986, had the opposite effect in 1987, particularly in the first half of the year. U.S. earnings were hard hit, dropping by $446 million to $32 million. Margins were also under severe pressure in continental European markets, despite weakening of the U.S. dollar which reduced local currency costs for crude supplies.

Overall sales volumes were flat. Sales of motor gasoline, lubes and specialties were ahead of 1986 levels, but sales of heavy fuel oil were down, reflecting Exxon's continuing withdrawal from this business as the company adds facilities to upgrade fuel oil into more valuable products.

### *Upgrading projects under way in U.K., Singapore refineries. Other plants boosted octane capability.*

The company announced major upgrading projects at two of its refineries. In the United Kingdom, a $130 million Residfiner will be built at the Fawley refinery to upgrade heavy fuel oil for further processing into more valuable light products. The 22,000-barrel-a-day unit will reduce the crude runs needed to produce a given volume of gasoline and other light products. At its Singapore refinery, Exxon is adding a $75 million, 35,000-barrel-a-day thermal cracking/visbreaking unit, which also converts less valuable heavy products, for which demand is declining, into light products such as jet fuel, diesel and naphtha. Both units are scheduled to start up in 1989.

Exxon committed over $145 million during the year to upgrade refining operations to meet increasing demand for lead-free and higher-octane motor gasoline. Investments included an isomerization project at Baton Rouge, Louisiana, and new reformers at Augusta, Italy, and at Port Dickson, Malaysia. An affiliated refinery at Kawasaki, Japan, which currently must import components to make 100 octane fuel for the Japanese market (the equivalent of 94 octane in the U.S.), will add a unit in 1988 to permit the manufacture of these components.

As part of a continuing program to restructure refining operations in line with changes in the market, Exxon sold its 100,000-barrel-a-day refinery at Hamburg, West Germany.

### *New products included 93 octane unleaded premium gasoline in U.S. markets.*

New gasolines, diesel fuels and motor oils were introduced in several countries, as Exxon marketing programs emphasized improved product qualities.

The company introduced 93 octane Exxon Supreme in the United States to meet the

# EXXON CORPORATION

## EXCERPT FROM THE ANNUAL REPORT OF EXXON CORPORATION, 12.31.87

needs of the growing number of high-compression and octane-sensitive automobiles on the nation's roads. The new fuel puts Exxon among U.S. industry leaders in the octane rating of its unleaded premium motor gasoline. Exxon Supreme was available in most major East and Gulf Coast markets at year-end. It complements Exxon USA's other gasoline offerings, which include 87 octane Exxon Regular unleaded in all markets and 89 octane Exxon Plus unleaded in most major East and Gulf Coast markets.

Exxon USA introduced several new specialty oil products, including Busgard, a motor oil specifically formulated for the engines that power most U.S. bus fleets, and Zerice Supreme, a refrigeration oil for the commercial refrigeration market.

EXXON
EXXON
New Exxon Supreme
93
Octane

*Sign at this Exxon service station in Houston heralds the 93 octane Exxon Supreme unleaded gasoline which was introduced in most major East and Gulf Coast markets in 1987. The station exemplifies the latest architecture and design features being extended throughout Exxon's worldwide retail chain.*

Snacks
Drinks
Dairy

*Motorists can fill market baskets as well as fuel tanks when stopping at Exxon service stations with convenience stores like this Esso Shop in Bath, England. Increasingly in evidence in Exxon's worldwide retail chain, such shops sell convenience food and sundries in addition to automotive products.*

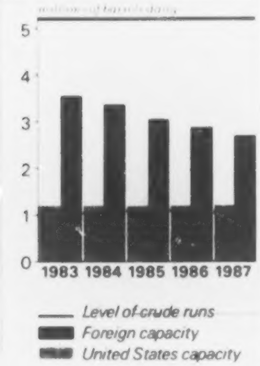
***Exxon entered the quick-lube business.***

Imperial acquired the Canadian assets of Mr. Lube Limited, which has operated a successful quick-lube franchise business in Canada for the past 12 years and has a chain of some 50 outlets, about half of them associated with Esso service stations. Exxon USA formed a joint venture with Mr. Lube International to develop 12 to 18 pilot outlets in the United States during 1988 under the name Mr. Lube U.S. Exxon's French affiliate entered the field by opening three test units in Bordeaux under the name Lubexpress. The outlets feature Exxon or Esso-branded motor oils in this fast-growing segment of the consumer motor oil market.

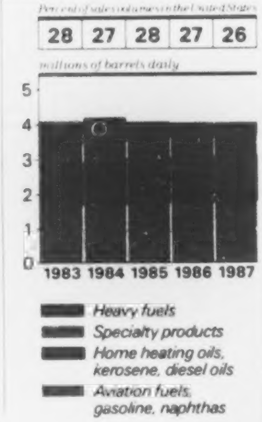
## EXXON CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF EXXON CORPORATION, 12.31.87

**Refining capacity and level of crude runs**



**Petroleum product sales volumes**



### *Retail automation gains included credit/debit card in U.S. market, pan-European card.*

Exxon USA became the only U.S. oil company to offer a debit feature on its regular credit card, allowing Exxon card holders to authorize payment for purchases directly from their bank accounts and thereby qualify for cash discounts without sacrificing the convenience of a card. The payment option has been offered to all active card holders and is available to new applicants as well. Customers use personal identification numbers to ensure the security of transactions and get written receipts for their records. Electronic processing equipment which accepts Exxon cards and selected bank debit cards has been installed in more than 3,600 company-owned service stations.

Exxon introduced a pan-European credit card for truckers, whose trips often cross one or more national boundaries. Customers can use the card to charge fuel purchases on the Continent from Norway to Italy.

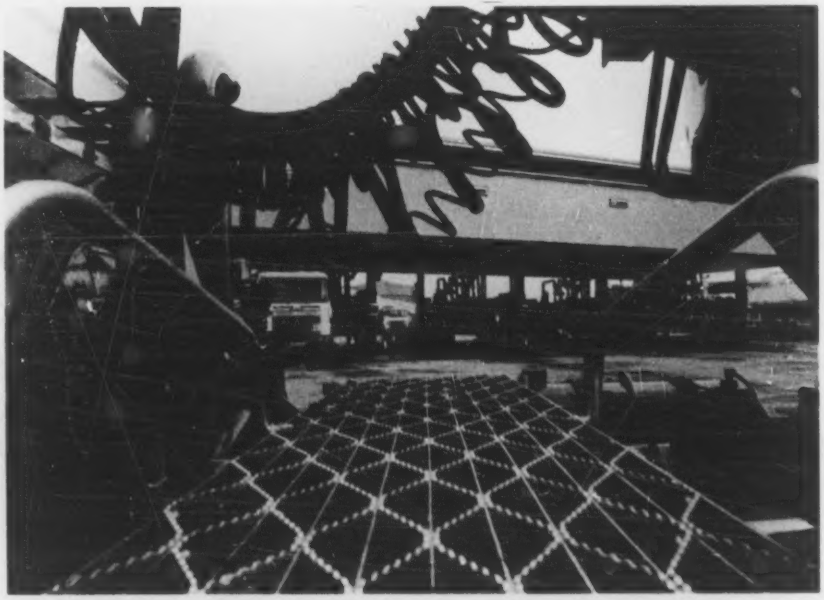
### *Expansion of convenience stores continued.*

Construction of more shops brought the total of convenience stores installed at new or modernized Exxon service stations to more than 4,000 worldwide. Exxon USA now has more than 300 Exxon Shops. Affiliates continued to add new shops in Europe, and Exxon established its first C-stores in Latin America and the Far East. Units were opened in Puerto Rico, Chile, Guatemala, Panama, the island of Guadeloupe, Australia and Singapore—all offering a wide variety of fast foods and other convenience products as well as automotive products.

### *More tankers activated for international service.*

Exxon took three large crude carriers (two VLCC's and the 508,000 dwt ULCC *Esso Atlantic*) out of layup and into operation, in response to increased demand for crude oil transportation capacity. This left only three of the company's 20 large crude carriers still in layup, the lowest level in five years.

The second of two new U.S.-flagged VLCC's was delivered to Exxon USA for Alaska service. Three smaller ships were sold in 1987, reducing the Exxon fleet to 72 vessels at year-end.



*Computerized systems monitor activities from order to delivery at new fuels terminal opened in Purfleet, England. Systems for bottom loading of road tankers and for vapor recovery bring considerable savings as well as environmental benefits.*

# STANDARD OIL OF INDIANA (AMOCO)

## EXCERPT FROM THE ANNUAL REPORT OF STANDARD OIL OF INDIANA (AMOCO), 12.31.87

## Refining, Marketing, and Transportation

### Worldwide

| (millions of dollars) | 1987 | 1986 |
|---|---|---|
| Capital expenditures | **$ 440** | $ 412 |
| Identifiable assets | **5,475** | 5,239 |
| Segment revenues | **16,500** | 14,771 |
| Net income | **216** | 362 |
| Net income as a percent of | | |
| Identifiable assets | **3.9%** | 6.9% |
| Segment revenues | **1.3%** | 2.5% |

Refining, marketing, and transportation operations earned $216 million in 1987 vs. the record $362 million earned in 1986. The decline resulted primarily from lower product margins as crude oil prices increased. Partially offsetting were benefits from capital and operating improvements and increased sales of Amoco Silver and Amoco Ultimate gasolines.

**Refining** – The major goals of the refining segment of our business are to achieve satisfactory economic performance by maximizing our return on assets, improving the yield of valuable products, minimizing costs, and continuing our commitment to protect the environment.

During 1987, Amoco's domestic refining system operated at 87 percent of capacity, higher than the industry's average of 83 percent. A number of individual units within our refining system achieved record processing intensity, allowing us to maximize feedstock conversion into our most-valuable premium gasolines and distillates.

We continue to add to our octane-producing capabilities as the demand for lead-free gasoline grows. The efficient proprietary production of Amoco Silver, our new 89 octane lead-free gasoline, was facilitated by the completion of several projects to increase our capacity to produce higher-octane gasoline. The most important of these was the completion of second-stage upgrading of isomerization units at our refineries at Whiting, Ind., and Texas City, Texas.

In addition, expansion of octane-producing Ultraformer units at our refineries in Salt Lake City, Casper, Wyo., and Mandan, N.D., added to our capacity to produce higher-octane gasoline. We improved both the quantity and quality of gasoline produced at our Yorktown, Va., refinery by modifying existing process facilities during 1987.

We accelerated our process-control systems modernization program by installing state-of-the-art computer technology at four major process units and initiating similar projects at three other units during the year. Improved controls allow us to optimize product yields and reduce energy use and catalyst consumption. The cumulative effect of these and other facility upgrading projects completed at our refineries in recent years has been to increase the yield of light products (aromatics, gasolines, and distillates) from a barrel of crude oil to 86 percent. The upgraded facilities also, simultaneously, allowed us to switch to lower-cost but more-difficult-to-process crude oils.

We began a multi-million dollar, long-range program to modernize the storage, shipping, and blending of crude oil, intermediates, and finished products at our Texas City refinery. This project will result in environmental benefits as well as operational efficiencies.

**Marketing** – The major goals of the marketing segment of our business are to provide high-quality products to our customers and generate acceptable profitability. We put strong emphasis on our motorist gasoline business, where we enjoy a leadership position.

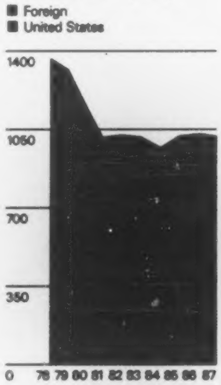
Our reputation as the quality and lead-free leader was enhanced during 1987 as we introduced mid-grade Amoco Silver gasoline in a majority of the states where we market at retail. Nearly 8,000 Amoco service stations now sell our totally unleaded product slate, continuing Amoco's lead-free leadership. Sales of Amoco Silver have more than replaced the volume of leaded regular at outlets where the leaded product was discontinued. Not only has Amoco Silver proved to be a higher-margin product than leaded regular, it also creates a solid foundation for future growth, as the phasedown of lead in gasoline continues and lead is finally eliminated. While some competitors have followed our lead, none has introduced an all lead-free slate throughout such a wide geographic area.

Despite the fact that much of our recent promotional and advertising effort focused on Amoco Silver, sales of Amoco Ultimate, our premium lead-free gasoline, also increased during 1987. The continued success of this higher-margin product confirms our strategy of emphasizing product quality.

Amoco's domestic gasoline sales declined slightly in 1987 as compared with 1986, primarily because of the five-state marketing withdrawal that we completed at

**Refined Product Sales**

thousands of barrels per day



# STANDARD OIL OF INDIANA (AMOCO)

EXCERPT FROM THE ANNUAL REPORT OF STANDARD OIL OF INDIANA (AMOCO), 12.31.87

## Refining, Marketing, and Transportation

year-end 1986 to improve our marketing efficiency. However, gasoline volumes sold through our direct-supplied stations in the United States, which are among the most efficient in the business, averaged 1.2 million gallons per year, about a 10 percent increase over 1986 per-station volume. In addition, Amoco's sales of jet fuels increased 6 percent over 1986, reflecting higher sales to the government. Asphalt sales rose 12 percent due to strong demand, particularly in the Midwest. Sales of our premium synthetic motor oil, Amoco Ultimate, increased 26 percent in 1987.

Our research continues to indicate that consumers want a variety of service station facilities to serve their diverse needs. Our strategy is to meet these needs by providing new and updated stations. We added 78 new high-volume pumpers and rebuilt 82 existing locations into pumpers. In addition, we renovated 124 conventional full-facility stations that have service bays. In recognition of the importance of automobile repairs to many of our customers, we announced in April an extended Certicare nationwide warranty program for motorists who obtain repairs at our Certicare guaranteed auto repair facilities.

In support of our strategy of leading in innovation, we opened prototype service stations of the future in Overland Park, Kan., and Ocoee, Fla. Automatic teller machines accept cash or credit cards on the pump islands at these stations, which offer the motorist added convenience and an aesthetically pleasing design.

We installed an electronic sales processing system (ESP) at about 500 Amoco service stations in 1987, and plan to extend the system to about 2,900 additional stations in 1988. The system processes sales and controls the station's pumps electronically. It also automatically accumulates and records a great deal of other vital information that previously had to be gathered and processed manually.

Our gasoline credit card was redesigned to complement the look of Amoco service stations. About 16 million motorists hold Amoco credit cards.

The Amoco Motor Club, which serves 2.6 million households, was selected to provide automotive and travel services for *Reader's Digest*'s motor club plan. Our motor club now has become the nation's largest full-service supplier of third-party motor clubs.

We continued to upgrade or replace underground tanks at our service stations in a $95 million program that began in 1984 and will be completed in 1990. This program both protects the environment and reduces product loss, and was about 57 percent completed at year-end 1987.

**Transportation**—In 1987, Amoco continued to strengthen its pipeline asset base in areas that are both profitable and strategic to its operations. We increased our ownership in the 634-mile Capline pipeline system that transports crude oil from Louisiana to Illinois, and expanded the capacity of our Texas Gulf Coast ethylene and butane pipeline systems. We constructed new crude oil gathering systems and began crude oil trucking operations in Texas and Louisiana. These investments were made to carry out our strategy of developing profitable opportunities in the crude oil gathering and transportation business.

We also undertook two major consolidation programs that will help control costs and improve productivity. Eight pipeline control centers were consolidated into two locations during 1987. These and three remaining control points will be centralized in a new facility in Tulsa, Okla., during 1988. In addition, we continued our staff reorganization and consolidation. We closed our Western division pipeline office during 1987, and

icare
All Repairs
DOLLARS
89
12
11
Amoco
Silver
Lead-Free

**We continued to introduce Amoco Silver, our new 89 octane mid-grade lead-free gasoline, into new areas in 1987, and now sell the fuel in 22 states. At outlets that have the new product, Amoco Silver's volume has exceeded that of the leaded gasoline it replaced.**

# STANDARD OIL OF INDIANA (AMOCO)

## EXCERPT FROM THE ANNUAL REPORT OF STANDARD OIL OF INDIANA (AMOCO), 12.31.87

Food Shop
CarWash

One of two Amoco prototype service stations of the future is in Ocoee, Fla. Automatic teller machines at the pumps accept cash or credit cards, and the stations have convenience food stores and car washes. All facilities can be controlled from a cashier's station.

Electronic sales processing (ESP) systems such as this have been installed at 500 Amoco stations. They automatically collect and process data about each sale. Amoco Territory Manager Bill Glennon, right, explains the system to Chicago-area dealer Don Jacobson.

# SHELL OIL COMPANY

## EXCERPT FROM THE ANNUAL REPORT OF SHELL OIL COMPANY, 12.31.87

## Oil and gas

### Manufacturing, marine and marketing

| | 1985 | 1986 | 1987 |
|---|---|---|---|
| | | | £ million |
| **Earnings** | | | |
| World outside USA | 403 | 782 | **542** |
| USA | 222 | 211 | **132** |
| **Earnings on an estimated current cost of supplies basis** | | | |
| World outside USA | 581 | 1,564 | **519** |
| USA | 159 | 212 | **132** |
| **Capital expenditure** | | | |
| World outside USA | 779 | 1,065 | **1,319** |
| USA | 445 | 264 | **244** |

Although down on 1986, earnings from downstream operations showed resilience in a year of modest growth in demand, weak refining margins and intense competition. Group results benefited from Shell companies' leading positions in oil products markets, the strength of the Shell brand and a wide geographical spread.

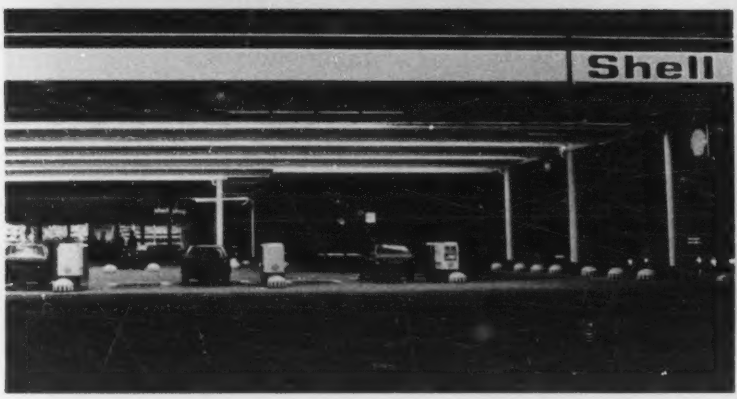
Each day more than five million barrels of crude oil were acquired by Group companies from widely diversified sources and channels of supply. Shell International Trading handled 2·3 million barrels of crude oil and 740,000 barrels of refined products daily.

Average utilization of distillation capacity in Group refineries was 88%, slightly higher than 1986; efforts continued to concentrate on reducing fixed operating costs.

The tanker market continued to improve in 1987, although a surplus of larger ships remains. Greater flexibility and higher cost-effectiveness in manning and shipping arrangements have made Shell marine operations much more competitive.

New products, continued upgrading of distribution facilities and retail outlets and strong emphasis on improving services to customers have helped to strengthen the Group position in a highly competitive market.

Activities during the year included:



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HONDA

# SHELL OIL COMPANY

## EXCERPT FROM THE ANNUAL REPORT OF SHELL OIL COMPANY, 12.31.87

**USA:** higher than average industry growth in the motor gasoline market, preliminary data showed Shell Oil to have maintained its position as the nation's largest gasoline retailer.

**Joint ventures** with a Montedison subsidiary (MonteShell) to achieve nationwide re-entry through 3,000 service stations to the Italian oil products market, and with Tarmac in the UK in bitumen manufacture.

**Acquisition** of marketing businesses in Africa, also a number of special product acquisitions in Europe.

**Continued demonstration** of Shell fuels and lubricants technology in motor sport, including the 500cc world motor cycle road racing championship winner.

**Development** of new products, building on earlier initiatives, 1987 saw the launch of 'Shell Formula Diesel', offering lower fuel consumption, improved performance and environmental benefits.

Formula
Diesel

**Continuing upgrading** of layout, presentation and facilities at service stations, including advanced electronic and card-reading systems and convenience foodstores.

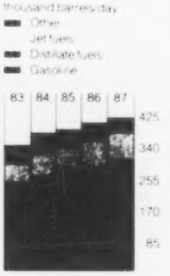
**Growing supply** of unleaded gasolines as demand develops in various countries.

**As a precaution** the spark aider additive was withdrawn from leaded grades of 'Formula Shell' gasoline in early 1988 following research into a small number of incidents of valve burning.

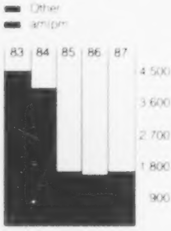
# ATLANTIC RICHFIELD COMPANY (ARCO)

## EXCERPT FROM THE ANNUAL REPORT OF ATLANTIC RICHFIELD COMPANY (ARCO), 12.31.87

Petroleum Product Sales



Domestic Branded Retail Outlets



Our refining and marketing operations maintained a strong level of profitability in 1987 despite a very difficult operating environment. ARCO remained the number one gasoline marketer on the West Coast, increasing our market share to more than 17 percent. Gasoline sales reached record levels and we increased the yield of more profitable light products from our refineries. A cogeneration facility that will reduce per unit energy costs and lower air pollution emissions was brought on stream at our Southern California refinery.

**Marketing** During 1987 ARCO Petroleum Products Company increased its share of the West Coast gasoline market from 16 percent to over 17 percent, strengthening its position as the number one gasoline marketer in its five-state marketing area, which consists of California, Arizona, Washington, Oregon and Nevada.

ARCO's leadership is based on its low-price, high-volume marketing strategy and its continuing commitment to customer needs. In 1987, for example, the Company introduced new lightweight self-serve dispenser nozzles, making it easier for customers to pump their own gasoline.

The result of the Company's strategy is that ARCO stations consistently outperform the industry. In 1987, ARCO's average lessee dealer station sold nearly 175,000 gallons of gasoline per month, over twice the industry average.

ARCO's total gasoline sales grew by 12 percent in 1987, while total demand on the West Coast increased only 4 percent. The Company was able to supply its demand growth by the extra light product yield from its two refineries and through an exchange agreement signed in 1986 with Tosco.

ARCO Petroleum Products Company also boosted its total jet fuels sales by 14 percent in 1987 and continued to increase its market share by expanding sales to additional air carriers.

The Company is continuing to expand its profitable am/pm* mini-market program. At the end of 1987, there were approximately 620 am/pm units in operation. In 1988, ARCO plans to add approximately 100 more. The Company further expanded the variety of fast food products offered at am/pm outlets. This helped boost total 1987 in-store sales of food and grocery items by 18 percent over 1986.

Although most am/pm markets are operated in connection with gasoline sales, the Company has opened five stand-alone units to test the potential of this concept.

ARCO also had 109 MP&G Tune-Up* Centers in operation at the end of 1987. The Company has added to its successful smog inspection and tune-up business by offering brake servicing at most MP&G locations.

During 1987, ARCO expanded its PayPoint* Debit Card System to more than 700 ARCO stations, making it the largest point of sale network in the Western United States. PayPoint allows customers to use bank automated teller cards at participating ARCO locations. During 1988, ARCO plans to test market its PayPoint network with non-ARCO retailers.

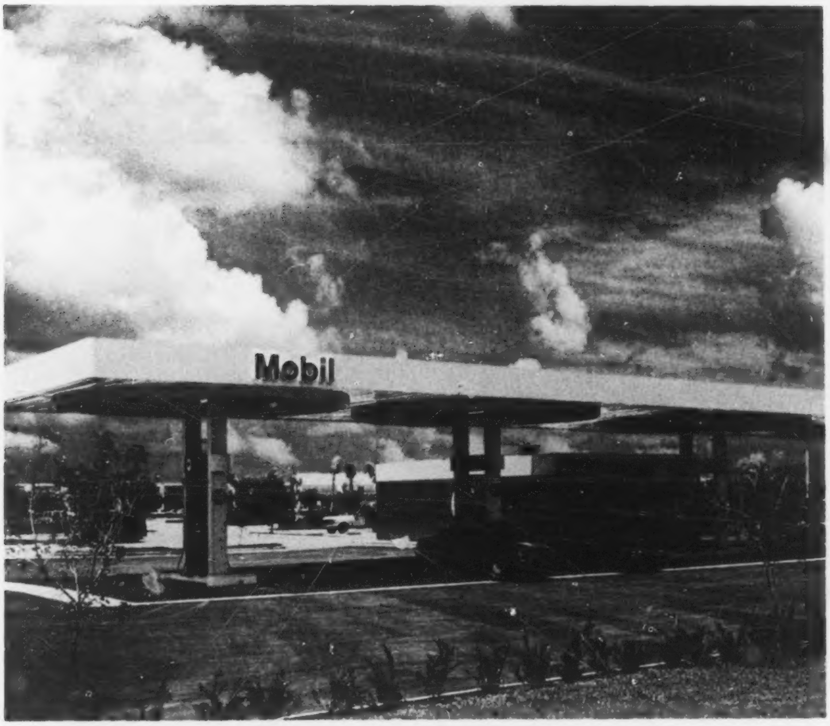
We continued to be successful in our existing international program. During 1987, we achieved record gas sales in the North Sea, confirmed several gas discoveries, and made progress toward bringing a number of new fields into production. In addition, negotiations were begun to renew our production-sharing contract in Indonesia's Java Sea.

Our coal operations expanded in 1987 through the acquisition of an underground mine in Utah, along with its existing long-term contract.

## MOBIL OIL CORPORATION

EXCERPT FROM THE ANNUAL REPORT OF MOBIL OIL CORPORATION, 12.31.87

# We outperformed most downstream competitors in a tough year for industry—and we're building for better times ahead



*Service stations with the new Pegasus 21 design, outperforming expectations in the U.S., are now upgrading the Mobil network abroad.*

Earnings "downstream"—marketing and refining (M&R), supply and transportation—fell 84% from the high levels of 1986 to $202 million. Here's why:

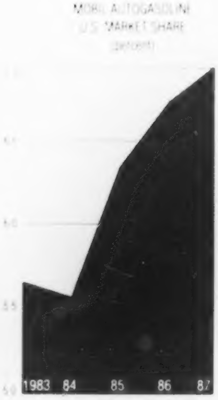
First, you'll recall that in 1986 crude oil prices fell faster than product prices. This boosted downstream profit margins. But in 1987 the opposite occurred: Crude prices rose more rapidly than product prices, thus squeezing profit margins. Also, industry was hurt by surplus product inventories carried over into 1987. Finally, refineries worldwide overproduced from readily available crude supplies. All in all, these factors depressed margins in 1987, particularly in Europe and, at least for the first half of the year, in the U.S. However, U.S. M&R earnings improved to $104 million in the second half from $19 million in the first half.

Mobil performed better than most in a year when industry-wide M&R profits were way down. Worldwide, our operating profits were above the industry average. In the U.S., we have been closing the gap between Mobil and our major competitors over the past few years, and in 1987 our profitability was above average for this same group of companies. Internationally, Mobil remains one of the top competitors in terms of earnings per barrel of product sold. Mobil is a top performer in the Far East and Pacific as well as in many European countries. But we're still not satisfied with the profits in some of our European affiliates and we have specific programs to improve our results.

The fact that we did bet-

# MOBIL OIL CORPORATION

## EXCERPT FROM THE ANNUAL REPORT OF MOBIL OIL CORPORATION, 12.31.87



ter than many other companies is encouraging for the future. These comparisons suggest that Mobil is competitive with the best in our industry. Yet being competitive today doesn't mean we can relax. After all, our competitors are also fighting to increase *their* profits. So here's what we're doing to get even better:

### Our strategic market

We continued our worldwide program of closing low-volume, inefficient service stations and of expanding with state-of-the-art service stations in markets where we can be at the top of competition.

Last year, in the U.S., as part of our program to increase efficiency, we completed withdrawal from gasoline marketing in all or parts of seven states. This brings to 20 the number of states from which we've wholly or partially withdrawn since 1981. Mobil is now concentrated in 32 key markets in 16 states that account for 85% of our U.S. gasoline sales, and we continue to acquire well-located properties that will make us even stronger in those strategic areas.

In 1987 Mobil's U.S. automotive gasoline sales grew at more than twice the rate of industry—the third year in a row in which we've increased market share. Since 1984 our gasoline market share in the U.S. has grown from 5.6% to 7%. Overseas sales growth of gasoline also outpaced industry. And worldwide, in areas where we market, we have an impressive 10% share of the profitable lubricants business.

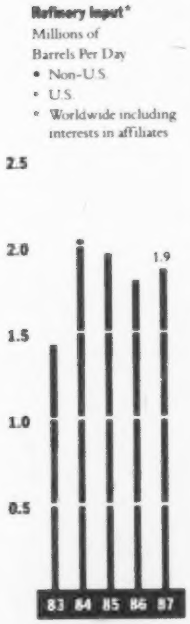
We plan to get even better as we continue to convert our service stations to the attractive and efficient Pegasus 21 design, which has boosted volumes wherever it's been introduced. Helped by the strong performance of these modernized locations, we're among the industry leaders in the U.S. Our average volume in stations where we have an investment interest has grown from 800,000 gallons a year in 1984 to almost 1.4 million gallons in 1987.

Overseas, Mobil is among the top competitors in many countries, especially in the profitable smaller European and Pacific Rim countries where we expect to see real growth in demand. Our ongoing service station upgrading program is only 40% complete in the U.S. and even less in some overseas markets, so there's plenty of room to grow.

Also helping to set us apart from the competition are innovative products—for instance, our premium gasolines with detergent additives that clean port fuel injectors. In 1987 U.S. sales of Super Unleaded Plus were up 27%, much better than the industry's 14% gain. In Japan, our premium gasoline sales doubled after midyear when we introduced "Mobil F-1" 100 octane unleaded premium gasoline. In Europe, where diesel fuel makes up one-quarter of our service station sales, our diesel detergent additive helped boost volumes by 15%. And internationally, sales of our industry-leading Mobil 1* synthetic lubricant increased a phenomenal 30%, while industry lubricant sales have generally been flat. The success of Mobil 1 was reflected in the Mobil-sponsored Williams racing team, which won the Formula One team championship and finished one and two in the Grand Prix Drivers Championship.

We lead the industry in the acceptance of bank debit cards for gasoline purchases in the U.S. and in many of our European and Far Eastern markets. During 1987 we introduced a premium credit-plus-debit card—the Mobil "Plus" card—in the U.S. It offers cardholders more benefits than similar plans of other oil companies.

## Downstream



**Input jumped sharply after the Gulf merger and has begun to level off.**

### Manufacturing

**U.S. refineries improve efficiency.** As crude oil prices improved in 1987, refining margins throughout the industry eroded. Chevron responded by continuing to cut costs and improve efficiency in order to maintain its competitiveness.

"Investment in new oil processing facilities was modest in 1987. Instead, we are encouraging employees to become even more involved in helping us run our existing hardware more efficiently, with greater yields and higher throughput," says Manufacturing Vice President Paul Larson. "We're also reducing the number of products and standardizing our specifications, which eliminates some special refinery runs and their added costs."

A major effort also was started in 1987 to divide the downstream business—refining and marketing—into profit centers, giving managers a new way to measure their financial performance. "During 1988, this 'profit segmentation' will dramatically improve our ability to make better business decisions as the 'bottom line' more directly influences our whole management system," says Dave Hoyer, Chevron U.S.A. Senior Vice President for Manufacturing, Supply and Marketing.

**Cogeneration cuts utility costs.** Another way the Company is saving money is through cogeneration, a process that generates electricity at the same time it produces steam. For instance, a new $80 million cogeneration plant that started operating at the El Segundo, Calif., refinery in January 1988 will save approximately $28 million a year in utility bills.

Chevron deferred construction of a similar $112 million cogeneration plant at the Richmond, Calif., refinery after negotiating a lower electricity rate with the local utility.

Chevron is budgeting for cogeneration plants at two of its smaller refineries, Hawaii and El Paso, Texas, and is evaluating major capital projects at other refineries.

**Chevron protects environment.** Environmental projects continued to receive high priority, particularly at the two California refineries. Richmond completed a $45 million project to improve treatment of its effluent and to extend the discharge point to deep water, ensuring much greater dilution. The improved effluent passed a stringent test that uses baby rainbow trout. The El Segundo Refinery completed a $22 million stormwater collection and storage system.

**Operational efficiency, cost savings and environmental protection were among the year's major goals for the Company's refineries.**

**Unleaded gasoline demand grows in Canada.** Chevron Canada Limited finished constructing a $9 million alkylation plant at its Burnaby, British Columbia, refinery to meet new lead phase-down laws. The Company also plans phased-in projects to upgrade the refinery to meet a growing need for unleaded and premium grades of gasoline.

**Caltex modernizes refineries.** Caltex, Chevron's 50 percent-owned affiliate operating in the Eastern Hemisphere, began major modernizations at 12 of the 15 refineries in which it holds an interest. These projects will reduce energy costs and improve product yields.

Major projects were completed in 1987 at the Muroran Refinery in Japan and the Honam Oil Refinery in Korea.

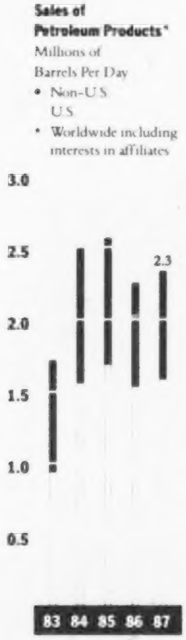
Through one of its joint venture affiliates, Caltex entered the profitable petrochemical manufacturing business for the first time, with completion of a polypropylene plant in Korea.

## Marketing

**Chevron is top marketer.** Chevron is the United States' largest seller of refined products. The Company holds the top spot in jet fuel, asphalt and distillate sales by a large margin and is second in motor gasoline sales. But Chevron's goal is to become the nation's most profitable marketer, not just the largest. This is no easy task.

Gasoline demand is expected to be nearly flat, so petroleum marketers have been competing aggressively to win customers from each other. Chevron's strategy is to attract customers with efficient operation, quality service and high-performance products.

- In marketing, we're concentrating on the growing Sun Belt area. Our goal is to be one of the top three marketers in each state in which we compete. We're developing our high-volume stations and have budgeted nearly $1 billion to remodel or build 900 stations by 1992.



**Product sales rose in 1987 from the post-merger low reached in 1986.**

**Company launches service revolution.** The newest program, "Commitment to Service Excellence," began in January 1988 with a fresh emphasis on customer service at all 14,000 Chevron and Gulf retail stations. Over time, motorists will see more responsive station employees, a more attractive image and better service.

"This is a long-term plan to start a service revolution," says Chevron U.S.A. Marketing Vice President Lou Taigen. "With price and convenience often similar among companies, customers tend to choose a station based on the quality of products and service."

**Remodeled stations boost efficiency.** Chevron completed the fourth year of an ambitious program to build or remodel stations at strategic locations. Through 1987, some 415 stations have been built or modernized, while 764 obsolete facilities have been closed. The volume of gasoline sold at remodeled stations has nearly doubled, reflecting their acceptance by consumers.

By 1992, an additional 900 stations will be remodeled or built at a cost of almost $1 billion, while approximately 750 will be closed.

Marketing also accelerated a program to link stations electronically with Chevron's centralized billing computers. So far, about 1,400 stations are on the system, and the new schedule calls for 2,700 more by 1990. The electronic link speeds up transactions between the customer and dealer, and the dealer and Chevron.

The technology also will be used to test-market debit cards in 1988. The cards allow customers to buy gasoline at the lower, cash price, while transferring payment promptly from the customer's account to the Company's account.

**Midgrade unleaded gasoline introduced.** Chevron responded to growing consumer interest by introducing Chevron Plus Unleaded in some Atlantic Coast markets. The 89-octane midgrade replaced leaded regular at nearly 1,600 stations in parts of Florida, Georgia, Maryland, Virginia and the District of Columbia.

In February 1988, Chevron kept pace with competitors by upgrading its premium unleaded gasoline from 92 to 93 octane in parts of Florida and Georgia.

**Chevron Canada remains No. 1 in British Columbia.** Chevron Canada Limited, which markets in Western Canada, added Chevron's deposit-control additive, Techroline, to all branded gasolines in 1987. This helped the Company stay No. 1 in branded sales with 20 percent of the retail market. Modernization of service stations, which was started in 1979, continued during 1987.

**Sales are stronger than ever at newly remodeled Chevron service stations, and more new or updated stations are planned.**

**United Kingdom marketing campaign launched.** Gulf Oil Great Britain, Chevron's only refining and marketing company in Europe, stayed profitable in 1987 as U.K. sales margins remained strong.

To take advantage of the Milford Haven Refinery's ability to upgrade fuel oil to light products, the Company launched an aggressive five-year marketing campaign. It plans to

# USX CORPORATION—MARATHON OIL COMPANY

EXCERPT FROM THE ANNUAL REPORT OF
USX CORPORATION—MARATHON OIL COMPANY, 12.31.87

## Refining and Marketing

- Domestic product sales for 1987 averaged 527,100 barrels per day. A year earlier, they averaged 514,500 barrels per day. Gasoline sales in 1987 amounted to more than 4 percent of the market in 15 states. Market share ranged from 9 to 20 percent in the six midwestern states where the company concentrates its Marathon-brand sales.
- The Emro marketing subsidiary, which operates over 1,300 service stations, convenience stores and truckstops, added 81 new or rebuilt units to capitalize on both petroleum and non-petroleum product sales.

In all business lines—Sunoco branded fuels, wholesale fuels, lubes, chemicals and pipelines—emphasis continued on innovative marketing.

To build on the strength of the Sunoco brand, service stations were modernized and upgraded.

Productivity was improved by concentrating sales through high-volume stations in locations where Sun has a logistical or marketing edge.

98
ultra
SUNOCO
Ultra Racing Team

**The Sunoco Ultra Buick made its debut February 14, 1988, in the Daytona 500 race of the NASCAR/Winston Cup Series. The racing team represents a sports marketing program supporting the full range of Sunoco Ultra products.**

## Refining and Marketing

### *Refineries set records; fuels, chemicals, lubes and pipelines stress innovation in marketing*

Sun Refining and Marketing Company in 1987 served a market in which excessive output, high inventories and growing imports of gasoline and finished products squeezed profitability.

Additional Ultra Service Centers and convenience store and food mart franchises were built to further diversify sources of income.

Sales of Ultra gasoline, the highest octane unleaded major brand, continued to grow briskly. In the Oklahoma, Missouri and Iowa area served by the Tulsa refinery, service stations still bearing the DX logo from the days before the 1968 merger of Sun and Sunray DX will be converted to the Sunoco logo.

**The Sunoco "flag" is going up over former DX stations in Oklahoma, Missouri and Iowa. Upgrading at the Tulsa refinery, the economy of scale of a one-brand umbrella, and Ultra's success prompted the decision to move Sunoco west.**

## PHILLIPS PETROLEUM COMPANY

EXCERPT FROM THE ANNUAL REPORT OF PHILLIPS PETROLEUM COMPANY, 12.31.87

# Petroleum Products

Although 1987 was not as profitable as 1986, Petroleum Products had some significant accomplishments for the year: Refining operations were near the top of the industry for safety; Phillips refineries ran far above the industry's average utilization rate; and the Phillips shield rose high above some of the most modern and convenient service stations in the country.

**Lower Margins Drive Down Operating Profit**

Operating profit for Petroleum Products was $201 million in 1987, compared with $458 million a year earlier. Although prices were up, this business was impacted by higher feedstock costs that could not be fully recovered in the marketplace.

In 1988 about 20 percent of the company's total capital expenditure budget will go to Petroleum Products. Major expenditures will be directed toward retail marketing, refinery improvements and the construction of a hazardous waste incinerator at the company's Sweeny, Texas, refinery.

**Strengths: Secure Feedstocks, Sophisticated Refining System**

A major strength of Petroleum Products comes from Phillips being a fully integrated company with access to a secure supply of feedstocks. For example, Gas and Gas Liquids provides the natural gas liquids that are used in the company's downstream operations.

Another strength is the company's state-of-the-art refining system, which can process lower cost crude oils into high-value products. Also, because the company sells more gasoline than it refines, it can operate its refineries near 100 percent of rated capacity, which helps lower per unit processing costs.

**Product Sales Remain Strong**

Motor fuel sales volumes were up for the fourth consecutive year, reflecting Phillips aggressive effort to market more of its Phillips 66® brand products. Compared with 1986, sales volumes of branded products were up 3 percent to the company's independent marketers, while volumes rose 36 percent from Phillips own retail outlets. U.S. sales volumes of distillates improved slightly during the year.

U.S. sales volumes of natural gas liquids products were down 13 percent from 1986, primarily due to weak demand and lower supply availability.

**Crude Runs Up for Year**

Overall, crude runs were up slightly for the year. U.S. crude oil accounted for 77 percent of the company's crude runs, down 4 percent from the previous year. Natural gas liquids processed in Phillips facilities were down for the year.

**Refineries Operate Above Industry Average**

Phillips operated its three U.S. refineries near 100 percent of rated capacity, compared with an industry average of 83 percent.

The cost of crude oil delivered to its refineries was 24 percent higher in 1987, primarily the result of strengthening crude prices. High-sulfur crude oil, a low-cost grade of crude from which Phillips produces high-value products, accounted for 66 percent of the crude processed, about the same as the previous year.

The cost of natural gas liquids was up slightly for the year. The company processed an average of 195,000 barrels of natural gas liquids a day, down 3 percent from the previous year.

**Phillips 66® Brand Continues to Shine for Motorists**

Travelers on Oklahoma's Turner Turnpike, which connects Tulsa and Oklahoma City, now are experiencing the latest in Phillips station design and service. In a program with McDonald's Corporation, three combined Phillips and McDonald's facilities are serving customers on the 90-mile route. Early in 1988, the two companies joined together to serve travelers on the Will Rogers Turnpike, as well.

An aggressive program to enhance the image of the Phillips 66® brand continued in 1987, as Phillips worked with its independent marketers to improve service and appearance at retail outlets. The company also took steps to make its brand more visible by building or renovating 49 Phillips-owned stations, many of them in high-traffic areas.

A vigorous credit card solicitation program, initiated in mid-1987, increased Phillips customer base by almost 200,000 accounts.

During the year, Phillips introduced a medium-octane unleaded gasoline under its SuperClean® trademark. The company also markets regular and high-octane SuperClean® gasolines. All have high detergent content to keep fuel-injectors and carburetors running clean.

**Strategy: Produce More High-Value Products, Control Costs**

In order to enhance its position in the marketplace, the company is making capital improvements to its refining system that will enable it to produce more high-value products. For example, in 1988 construction will begin on a new HF alkylation unit at the Sweeny refinery, which will allow Phillips to process a higher volume of low-value by-products into higher octane blend stocks. At the same time, the new unit will let the company sell aromatics as higher value petrochemical products, rather than using them for gasoline blending.

Because the disposal of waste materials is increasingly costly, Phillips is building a hazardous waste incinerator at the Sweeny refinery and plans to build a similar incinerator at the Borger, Texas, refinery.

**Strategy: Increase Sales of Phillips 66® Brand Products**

In today's highly competitive environment, Phillips is working to expand its retail effort by building modern stations in prime, high-traffic areas. Part of this effort includes joining with other major corporations to create greater appeal and a broader range of customer services.

Efforts are also under way to strengthen Phillips presence in key marketing areas. During the year, the company began withdrawing from four states, enabling it to concentrate on markets more efficiently served by its refining and distribution network.

Phillips continues to be an industry leader in offering innovative programs that encourage its marketers to rebuild or upgrade their retail outlets. At company-owned outlets, average sales volumes are up, and operating expenses are down.

*Travelers on Oklahoma's Turner Turnpike are greeted by the Phillips 66® shield and the golden arches of McDonald's. To strengthen its retail marketing effort, the company is joining with other major corporations to create greater appeal and a broader range of customer services.*

UNOCAL 76
NO SMOKING
STOP MOTOR
Guaranteed Auto Service
76
76
76

*Unocal services about 10,900 branded retail outlets in 42 states, including this service station in San Marino, California.*

# UNOCAL

## EXCERPT FROM THE ANNUAL REPORT OF UNION OIL COMPANY, 12.31.87

### Unocal Refining & Marketing Division

The company's Refining & Marketing Division increased product sales volumes in 1987 for the fifth consecutive year, continued to upgrade its refinery system, and significantly expanded its marketer network in the Eastern Region. However, because of tighter profit margins (primarily due to rising raw material costs), the division experienced significantly lower earnings.

Product sales rose 8 percent in 1987 to 479,100 barrels per day, compared with 441,900 barrels per day the previous year. This increase is more than four times the national average and a 32 percent increase over the company's sales level in 1982. Gasoline sales volumes rose 7 percent in 1987, also more than four times the national average.

Nearly 117 million credit card invoices were processed at Unocal's Credit Card Center in San Francisco, a 2.5 percent increase over the 1986 level and a new record for the company.

East of the Rockies, the company added over 900 new branded retail outlets to its marketer network in 1987. Unocal now services 8,200 retail outlets in the Midwest and Southeast, including 3,200 convenience stores and self-serve marts. In this region, the company's gasoline sales rose 9 percent in 1987. Combined with a 17 percent increase in 1986, this represents the highest sales gain of any major brand over the two-year period.

Unocal's Auto/Truckstop system, one of the largest in the country, introduced Truck Lube Centers at 88 strategically located auto/truckstops from coast to coast. These centers provide convenient and economical lubrication services, including a one-of-a-kind, written motor oil warranty, for the over-the-road trucking industry.

## 1984 DOLLARS PER DAY EDITORIAL

I have a confession to make. I've been wrong, and all of those operators who said I didn't understand the convenience store business were right. I've committed the basic strategic business mistake. I didn't know what business I was in.

All the years I've been in business I've thought we were in the general retailing business. I thought I was a merchant, supplying a line or lines of products to a cross section of the consuming public. My basic premise has been that if I continued to improve the offer to the public, the public would be happier and we'd continue to do better. We tried to distinguish ourselves by having brighter, cleaner, prettier stores than the competition. We kept trying to develop new and better ways of doing things. I just knew that if we did these things we'd end up rich and famous.

I had this crazy idea that this was the way successful retailers operated. Early in life I'd read the J.C. Penney story and other books about the famous department store barons of the past century. Their premise was that they were the cultural and material goal setters in their communities. If they upgraded their operations, they upgraded the community, and they sold more goods. I believed in upscale marketing. I bought the idea that doing it better, was better.

My quest was not lonely. Most of the aspiring talents in the business said the same thing. "It can be done better, this is how we do it better, why are you so stupid that you are not doing it better?" Conventions used the Onward and Upward theme. The literature of the trade preached this gospel. Salesmen kept up the drum beat "Improve your offer and thou shalt be rewarded." I didn't need much persuasion. I was a true believer in the spend and improve cause.

There were signals I should have heeded, and words of advice I should have taken. I remember Leroy Melcher saying that he didn't want any store doing over $8,000 a month. "If you get one of those, someone will just build another store across the street from you." "I don't want any barn burners." And late many evenings, I'd listen to confused operators say, "I don't know how so and so (you insert the name) does it; they run crummy dirty stores; they mistreat their employees; they never change; why they haven't even done (you insert the item); they never do any business; why I'll bet they don't do (you insert the amount); how do they stay in business?" And who could forget L.D. Lewis's immortal words, "I get a 24 percent margin, and we split it three ways: 1/3, 1/3, and 1/3 (one third operating expense, one third employee cost, and one third profit). That's all there is to this business."

All of these folks were telling me things I should have heard, but I never listened. I knew they were wrong. I just kept on making the same basic mistake, trying to do it better.

My mistakes and my misconceptions of the business have been very costly to me. Change and improvement are costly commodities. I think we've tried more things than anyone in the business. I don't know of anything we haven't tried. I've chased every rainbow and looked into every dream. I've been certain that if we just looked long enough, hard enough, and far enough, we'd find the magic product, process, or concept that would take us to Beulah land.

I've bought every new piece of equipment offered. I've tried every new product and visited every new store and concept. I've attended seminars and conventions of every kind of retailer. We've continued to change our offer. We've added, subtracted, multiplied, and divided. We've had short gondolas, tall gondolas, narrow gondolas, wide gondolas, round spinning gondolas, square gondolas, straight gondolas, and gondolas on the bias. I tried everything in gondolas except flat wooden gondolas with fixed shelves because I knew they were wrong from the start. I remember a couple of years ago when Circle K had a weak moment and discovered adjustable shelving—they featured it in their annual report. We've had end checkstands, center checkstands, and checkstands with aisles. We have underground bunkers full of all the bright ideas in equipment. We keep one of each so we won't ever have to buy it again when the fever sets in. We've tried hand-dipped ice cream, soft ice cream, frozen yogurt, Italian ice and snow cones. We've made ice cream sandwiches and cotton candy. With popcorn, you name it, we've done it. We've made popcorn balls, tried it in huge bags, and small bags, sold it in paper bags, poly bags, boxes, and made it into bunny rabbits and smile faces. We've sold turtles, goldfish, salamanders, hamsters, chicks, bunnies, ducks, and parakeets. We've made donuts in the store, and in the commissary, we invented the big cookie (our baker had fat hands). We've had our houseware and garden center phases. We've sold bikes, trikes, wagons, sleds, toboggans, TV's, and floor scrubbers. When we couldn't sell them, we rented them. Fishing and hunting, we've been there. We've sold licenses, gear, guns, ammunition, fish worms, and salmon eggs. We've had big produce sections, small produce sections, and no produce sections. We've sold Christmas trees and ornaments, rented Santa Claus suits, sold big pumpkins and halloween costumes, Easter lilies, made Easter baskets, chrysanthemums (I once sold 2,000 pots of them to 7-Eleven), sold Memorial Day wreaths, corsages, tulips, carnations and roses by the bunch, live shamrocks for St. Patty's day. We've had photo development in one day, one week, and where we've offered free film. We've sold fireworks, party decorations, birthday presents, hardware, and watches. We've had arcades, game rooms, pinball machines, coin operated copiers, laundries, rides, scales, gum machines, stamp machines, and fortune telling machines.

We were severely afflicted with the coin operated mania. It was intense and prolonged.

We were champion toy buyers. We sold winkies, hula hoops, plush animals, water wiggles, slinkeys, games, yo yo's, kites, water slides, and trolls. One year we cornered the market on Beany and Cecil, Odd Ogs, and King Zors. Barbie was a personal friend, and the Mattel salesman knew my first name. Did I tell you about our efforts to beautify the world through lawn and garden? We sold bedding plants, fertilizer (liquid and granule), garden tools, spreaders, trees, hoses, sprinklers, and lawnmowers (hand and gas operated). In our racing phase, we were the place to buy dog and horse racing programs. In greeting cards we went the route: Christmas, get well, birthday, valentines, and Hanukkah cards. We've done about all you can do to chicken: Fried it in the store, broasted it, microwaved it, and barbecued the bird. Unlike the Colonel, we never could do it right. We've sold wood, fire logs, kindling, presto logs and fireplace grates. We've sold pizza by the wedge, sold uncooked pizzas, cooked it in big pizza ovens, round pizza ovens and tiny pizza ovens. We never could get a decent share of the pizza business. We've made caramel apples, pies, birthday cakes and fudge. If it could be tried, we tried it. If it had to be thought up to try it, we did that.

I've never denied myself any opportunity. I've tried to catch every brass ring that came by. The worst of my sins, is that I've lead others down some of these same paths to their detriment.

My problem is that I just didn't understand the business that I was in. Chance had cast a more-is-better person into a field where less-is-more profitable. I started with bad instincts and was captured by the hype of the trade.

Now, after all these years and many failures, I've just figured out what business I've really been in all of these years. I've been in the blind newsstand business.

The blind newsstand business and the convenience store business have a lot in common. They are both simple businesses and do best when they are kept simple. They sell things to people who happen to be in a particular location and have an immediate and compelling need for a product at that specific moment. Both businesses need to be kept very basic. In the convenience store business, the most success has come to those who have done the least. There is an obvious success formula. It's the one that I've overlooked in all of these years of searching. Here it is: You get yourself a cheap building in the best location you can get; you put in some plain wood shelves that you or someone makes in your garage; you get some merchandise (preferably on guaranteed sale) — AND YOU WATCH YOUR COSTS. You don't sell much, but it doesn't cost you much not to sell much. You don't hire architects and designers — you listen to experts for laughs and because you were brought up to be polite, but you don't pay for or take any of their advice. It's kind of like running a blind newsstand. You've got yourself a good location, you can't see that it's dirty and run down, and you get all of the business the location allows at costs that may give you a profit.

The people in the convenience store business that have done the best so far are the ones who have followed this formula. Many of them have made a lot of money. Some of them have left the business rich. They understood the business they were in. I'm confessing that these operators either instinctively, or through better judgment understood and understand this business better than I. I'll also confess to believing and stating that their wisdom was not enlightenment, but ignorance. They knew they were operating blind newsstands. They knew what they could and should do, and what they couldn't and shouldn't do. Blind newsdealers never overestimate the market. Convenience store merchandising, and selling principles do not correspond to the traditional retailing principles that are at work in most American retailing. There is a value barrier between convenience store retailing and other retailing. I don't know if it is possible to break this value barrier if you start with a convenience store type heritage. It may not be possible to go from the less for more image of the small store to a more for less image that other successful retailers have created. Will customers ever consider a store with a misspelled four letter name to be a legitimate place to buy goods for value? Can a small food store develop sufficient margin dollars to clean up its litter, repair holes in its parking lots, have street curbs, and repair or remove all of its broken or unused equipment? Can a small food store develop the supervisory environment necessary to motivate and keep a stable committed employee staff? The operators I know who are committed to upscale offers and programs are straining from their costs. As of this time, it still means more to the managements of those companies than it does to their customers or owners. As with most things, one's hopes are with virtue, but you should put your money with the sinners.

It appears that any change from the basic convenience store operating position of the last 30 years is dangerous and costly. It does appear that some operators share my misconception of the business they are in, and continue to try to shatter the value barrier. When you try to pierce this barrier, you start to spend money. You improve your physical facilities, you hire better people, you take better sites, and you put in new and fancy equipment. You try to catch every crazy idea and fad that comes along. You buy the machine it always takes to do the function. You forget that all tests work, and you roll out the program before the enthusiasm fades. You begin doing cute advertising because it's nice to be known in the community. You hire designers, architects and advisors. You send people on trips and to conventions to learn how to do things better. You forget the verities of the business. You increase your working hours because you have to run faster to stay even. You develop more margin dollars, but you have lots of new costs.

You start to get a lot smarter, but you've paid dearly for your education. You have a tiger by the tail and there is no place to let him go. You have to catch the next breeze to pay for the costs of your last attempt to get more than convenience sales. The path to failure, if you are in either the blind newsstand business or the convenience store business, is to try to get more sales than your location allows.

Attempts to break the value barrier and to make the convenience store into a legitimate retailing enterprise are dangerous, costly, and many times disastrous. I know of no confirmed examples of people or companies who have made a successful transition from convenience to value.

I'd like to believe that it's possible. National Convenience Store is making a try at it. I've recently been in two Stop 'N' Go stores. The first one is a new super store in North Dallas. They must have spent a million dollars on the facility. It was featured in this year's annual report. The second store is just off Indian School Road in West Phoenix. It is an old run down unit that looks as if it were built in the 50's and not more than $50,000 has ever been spent for the combined costs of land, building, equipment, merchandise, and repair.

Unfortunately, both fill the same function. As far as meeting its market, the function is more cost effective in the West Phoenix unit than in the Dallas Dream Store. This blind newsstand will do more for the NCS annual statement than all the fine photographs of the super store. I applaud Pete Van Horn for trying fancy units, but I don't believe he's come close yet to breaking the value barrier.

I hope I'm around when someone does develop a small store concept that can break the value barrier in a repeatable way. I hope I'm patient enough to seek confirmation of their financial success before I start to copy them. Further, I hope that when I do, I really understand the dynamics of their success and what business they are in so that I don't spend another 25 years chasing rainbows. I'd really like to go to parties and not have to pretend I'm not in the blind newsstand business.

It's taken me years to finally understand what the great operators were saying about the convenience store business. I've invested lots of time, effort and money to find this one small kernel of truth about this business. I'm sharing it with you for just the price of this survey. Unfortunately, many of you won't believe me. You won't believe the business you are in. Some of you will continue to thrash around trying to use all of the gimmicks to improve the convenience store business. Others will continue to try to break the value barrier. All of you will be damned to years of twisting and turning, trying to come up with a magic solution to a basic retailing problem.

I'll tell you one more time. If you want to be a success in the convenience store business, keep it simple. Do it cheap. Don't worry about quality. It costs too much. Above all, hold down your costs. Be able to fill the convenience function cheaper than the other guy. It may someday be totally uneconomic to run the kind of units that have made money and still make money in this business, but it hasn't happened yet. There is still a place for the old low cost, down and dirty stores that have made men rich.

I'd like to write more, but a guy is here with a croissant cooker that may just get us through the next year.

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# 1989 Update on Seven Eleven Stores

We have received figures for The Southland Corporation for 1988. This information was taken from their 10K dated December 31, 1988. Full copies of the report are available from Southland or from the Securities and Exchange Commission.

## Basis for Profit Per Day Determination -

The Southland Corporation operated 6,910 7-Eleven convenience stores on December 31, 1988. This is 908 less stores than they operated on December 31, 1987.

We have computed store days for 7-Eleven to be 2,695,224 store days. This is for the 6,910 stores operated all year and the 908 stores for half a year.

We have not computed average daily store sales. The 10K states on page 28 that convenience store merchandise sales increased 3.7% for the year. If our figures are correct for last year, average 7-Eleven store sales would be $2,227 this year and sales growth was $79 per store per day. They state this is a slight increase in real store sales growth.

Pretax Loss Computation:
Total pretax loss for Southland for 1988 = $397,132,000.
93.1% of total sales were from convenience stores. If we assign loss on the same basis as sales, the convenience store pretax loss was $369,729,890. This number divided by store days of 2,695,224 equals a pretax loss of $137.17 per store per day for 1988.

Aftertax Loss Computation:
Total aftertax loss for Southland for 1989 = $216,231,000.
If we assign loss on the same basis as sales, the convenience store aftertax loss was $201,311,000. This number divided by store days of 2,695,224 equals an aftertax loss of $74.69 per store per day for 1988.

During 1988, the Company's capital expenditures totaled $144 million. Of this amount, $13 million was for capital leases and $60 million was expended for Cityplace Tower, the Company's new headquarters building. Construction costs for Cityplace Tower in 1989 are estimated to be approximately $50 million. Under terms of the Credit Agreement, the Company's total future capital expenditures cannot exceed $106 million, $145 million and $125 million in 1989, 1990 and 1991, respectively. The Company believes these amounts will be sufficient to maintain its facilities and provide needed capital to meet competitive requirements.

During 1988, $26 million was used for the acquisition of 43 operating convenience stores in Las Vegas. Additional uses of cash include a $66 million payment for the purchase of the stock options outstanding at the time of the LBO and a $105 million increase in the Distribution Centers' inventory to minimize the effect of upcoming price increases.

The Company's high level of debt requires that a large portion of the cash provided by operations be used for interest payments and debt retirement.

### Income Taxes

Although the Company expects improved profitability from operations, it anticipates that net losses will be generated over the next several years due primarily to the interest expense associated with the high debt levels. As a result, the Company does not expect that it will be a tax-paying entity for several years and will use a portion of these losses as carrybacks to recover taxes paid in previous years. The Company received a federal tax refund of $57 million in the early part of 1989. An additional $24 million will be available for recovery in subsequent years.

## MANAGEMENT'S REVIEW OF OPERATING RESULTS - TWELVE MONTHS ENDED DECEMBER 31, 1988

The Company recorded net sales of $8.0 billion in 1988. Convenience store sales of $7.4 billion accounted for 93.1% of net sales. The sales from stores identified for divestiture are excluded from 1988 sales but are included in the first seven months of 1987. Excluding the results of these stores from both years, net sales would have increased 4.5% over last year. Convenience store merchandise sales (excluding sales from stores identified for divestiture) increased 3.7%. Real growth in average merchandise sales per store month (excluding sales from stores identified for divestiture) increased slightly for the year. Gasoline sales (excluding sales from stores identified for divestiture) were down 2.9% due to lower volume.

Other income of $40.2 million consisted primarily of area license royalties and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 21.15%. The overall convenience stores' gross margin (excluding sales from stores identified for divestiture) increased 1.02 percentage points. The merchandise gross margin increased .39 percentage points as a result of programs implemented in 1988, including increased purchasing efficiency at the wholesale level and a continuing emphasis on sales of higher-margin items. Gasoline gross profit per gallon was 11.4 cents compared to 9.0 cents last year. The unusually strong gasoline profit reflects industry conditions and certain strategic adjustments that focus on further improving profitability from the Company's gasoline marketing operations.

The ratio of expenses (selling, general and administrative, interest, contributions to profit sharing plan) to sales was 26.65%. This ratio has increased from historical levels due to higher cash and noncash interest costs, which include amortization of deferred debt issuance costs associated with the Company's new debt levels. In addition, selling, general and administrative expenses for the last five months of 1987 and all of 1988 include the amortization of the excess of cost over fair market value of the net assets acquired in the merger and other LBO-related noncash expenses.

The Company's net earnings for the year include $70.8 million from its 50% equity in Citgo's net earnings which reached their highest level since Citgo was acquired by Southland in 1983.

Due to the loss generated from the LBO, the Company recognized tax benefits of $110.1 million. The amount of the tax benefit was reduced by the tax expense associated with gains from the sale of assets, resulting in expected federal and state refunds to the Company of approximately $59 million in 1989.

## MANAGEMENT'S REVIEW OF OPERATING RESULTS - FIVE MONTHS ENDED DECEMBER 31, 1987 AND SEVEN MONTHS ENDED JULY 31, 1987

### Five Months Ended December 31, 1987

Net sales were $3.2 billion. Convenience store sales accounted for $3.0 billion or 94.7% of the Company's total sales. Merchandise sales in convenience stores were $2.4 billion while gasoline sales were $0.6 billion. Real growth in average merchandise sales per store month (including stores identified for divestiture) was a negative 0.5% during this period, despite improved profitability.

Other income of $14.6 million consisted primarily of area license royalties and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 21.65%. The merchandise gross margin improved compared to the five months of 1986 due primarily to the stores' more targeted merchandising efforts and the benefits derived from the Company's previous investment in new marketing programs. Gross profit per gallon of gasoline during the last five months of 1987 was 10.7 cents. The unusually strong gasoline profit reflects industry conditions and certain strategic adjustments that focus on further improving profitability from the Company's gasoline marketing operations.

The ratio of expenses (selling, general and administrative, [illegible]erest, contributions to profit sharing plan) to sales was 29.45%. The lar[illegible]rease in this ratio is primarily attributed to significantly higher inte[illegible]ts, which include amortization of deferred debt issuance costs associated [illegible]he Company's new debt levels. Certain other nonrecurring expenses including the cost to redeem all outstanding stock options, fees related to the financing of the tender offer and the loss associated with the unhedging of currency exchange agreements resulting from the monetization of the Japanese yen royalties contributed to the increase of this ratio.

The Company's net earnings for the period include $14.2 million from its 50% equity in Citgo's net earnings.

# THE SOUTHLAND CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per-share data)

### ASSETS

| | Successor | |
|---|---|---|
| | December 31 | |
| | 1988 | 1987 |
| CURRENT ASSETS: | | |
| Cash and short-term investments | $ 21,783 | $ 16,090 |
| Accounts and notes receivable | 208,686 | 152,010 |
| Inventories | 428,098 | 307,370 |
| Deposits and prepaid expenses | 25,929 | 24,752 |
| Business units to be divested | - | 353,101 |
| Other assets held for sale | - | 283,815 |
| TOTAL CURRENT ASSETS | 684,496 | 1,137,138 |
| PROPERTY, PLANT, AND EQUIPMENT | 2,215,238 | 2,344,449 |
| INVESTMENT IN CITGO | 440,777 | 380,037 |
| EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED | 986,356 | 931,309 |
| OTHER ASSETS | 534,644 | 589,220 |
| | $ 4,861,511 | $ 5,382,153 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1988 | 1987 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | $ 642,095 | $ 645,862 |
| Accounts payable to related parties | 50,501 | 59,474 |
| Income taxes | 377 | 589 |
| Long-term debt due within one year (including $2,594 and $2,561 due to related parties) | 527,174 | 627,344 |
| TOTAL CURRENT LIABILITIES | 1,220,147 | 1,333,269 |
| DEFERRED CREDITS AND OTHER LIABILITIES | 96,359 | 102,969 |
| LONG-TERM DEBT (including $20,800 and $24,334 due to related parties) | 3,787,578 | 3,978,902 |
| REDEEMABLE PREFERRED STOCK, 15% Cumulative Exchangeable Preferred Stock, Series One (redemption value of $288,898) | 118,850 | 91,288 |
| COMMON STOCK PURCHASE WARRANTS | 26,136 | 26,136 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY (DEFICIT): | | |
| Common stock, $.01 par value; 300,000,000 shares authorized, 205,041,676 and 200,000,000 shares issued and outstanding | 2,050 | 2,000 |
| Additional capital | 18,318 | 14,587 |
| Accumulated deficit | (407,927) | (166,998) |
| TOTAL SHAREHOLDERS' EQUITY (DEFICIT) | (387,559) | (150,411) |
| | $ 4,861,511 | $ 5,382,153 |

See notes to consolidated financial statements.

## THE SOUTHLAND CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per-share data)

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | Year ended December 31, 1988 | Five months ended December 31, 1987 | Seven months ended July 31, 1987 | Year ended December 31, 1986 |
| **REVENUES:** | | | | |
| Net sales (including $347,973, $153,976, $261,753 and $390,833 in excise taxes) | $ 7,950,284 | $ 3,211,018 | $ 4,865,436 | $ 7,782,664 |
| Other income | 40,213 | 14,616 | 33,938 | 40,312 |
| | 7,990,497 | 3,225,634 | 4,899,374 | 7,822,976 |
| **COST OF SALES AND EXPENSES:** | | | | |
| Cost of goods sold (including $834,455, $385,847, $632,082 and $983,609 from related parties) | 6,268,854 | 2,515,777 | 3,853,040 | 6,072,019 |
| Selling, general and administrative expenses | 1,543,090 | 775,125 | 946,491 | 1,531,931 |
| Interest expense (including $2,479, $1,779, $1,976 and $3,683 to related parties) | 560,269 | 163,515 | 45,081 | 57,291 |
| Contributions to Employees' Savings and Profit Sharing Plan | 15,416 | 6,926 | 10,844 | 21,406 |
| | 8,387,629 | 3,461,343 | 4,855,456 | 7,682,647 |
| | (397,132) | (235,709) | 43,918 | 140,329 |
| GAIN FROM SALE OF HALF-INTEREST IN CITGO | - | - | 23,254 | 114,732 |
| EARNINGS (LOSS) BEFORE INCOME TAXES, EQUITY IN EARNINGS OF CITGO AND BUSINESS UNITS TO BE DIVESTED | (397,132) | (235,709) | 67,172 | 255,061 |
| INCOME TAXES (BENEFIT) | (110,060) | (71,785) | 31,410 | 24,491 |
| EQUITY IN EARNINGS (LOSS) OF CITGO (pretax in 1986) | 70,841 | 14,177 | 39,131 | (51,993) |
| EARNINGS (LOSS) BEFORE BUSINESS UNITS TO BE DIVESTED | (216,231) | (149,747) | 74,893 | 178,577 |
| EARNINGS OF BUSINESS UNITS TO BE DIVESTED (net of income taxes of $11,456 and $21,009) | - | - | 15,185 | 21,868 |
| NET EARNINGS (LOSS) | (216,231) | (149,747) | 90,078 | 200,445 |
| ACCRETION TO REDEMPTION VALUE OF REDEEMABLE PREFERRED STOCK | (6,706) | (263) | - | - |
| PREFERRED STOCK DIVIDENDS: | | | | |
| Series A | - | (88) | (5,822) | (10,000) |
| Redeemable | (20,856) | (580) | - | - |
| NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES | $ (243,793) | $ (150,678) | $ 84,256 | $ 190,445 |
| EARNINGS (LOSS) PER COMMON SHARE: | | | | |
| Before business units to be divested: | | | | |
| Primary | $(1.22) | $(.75) | $1.42 | $3.51 |
| Fully diluted | $(1.22) | $(.75) | $1.42 | $3.49 |
| Net earnings (loss) applicable to common shares: | | | | |
| Primary | $(1.22) | $(.75) | $1.74 | $3.96 |
| Fully diluted | $(1.22) | $(.75) | $1.74 | $3.91 |

See notes to consolidated financial statements.